"BROADSHEETS" ON NATIONAL FINANCE

3/-

PUBLISHER'S NOTE

WITH a few exceptions all the chapters comprised in this book represent a series of "Broadsheets" contributed to the public press at the author's own expense from January, 1920, to April, 1921.

They are now gathered together into more permanent form in response to many requests and in a patriotic desire to support those who work for the world's true weal and as an offering of reasoned counsel to all labourers—whether of hand or brain—who would know more of a subject which is the key to their own and their Country's well-being.

"BROADSHEETS" ON NATIONAL FINANCE

By

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TO THE LORDS OF THE TREASURY

SAVE the country from the Experts and the Experts from themselves in the present hysterical financial outcry!

The Experts are responsible for the crisis!

The Star reports that Mr. Secretary Lansing has said in a report to the United States Senate:—

> "The United States, THROUGH NO EFFORT OF ITS OWN, has come into a position of economic preponderance comparable to that which was coveted by Germany and which she sought to attain by means of aggression and force." —January 29, 1920.

Through whose efforts, then, has this been accomplished?

Through *our* efforts, on the advice of our Experts!

Sir Oswald Stoll wrote in *The People's Credit* published early in 1916:—

> "Will our Government rise to the occasion, and with the necessary encouragement of regulated enterprise obtain that indisputable world-power in the interests of our safety and independence which one great nation has SO FAR FAILED TO OBTAIN WITH BLOOD AND IRON AND 'FRIGHTFULNESS,' BUT WHICH ANOTHER NATION MAY YET OBTAIN BY

> MEANS OF DOLLAR BILLS? Or shall we lie rocked in the cradle of the deep asleep, or in the midst of danger bury our head in sand and refuse to believe what, having blinded ourselves, we cannot see?"—Chap. VI., page 153.

The People of the United States, as a People, are no more to blame for the present situation than are the People, in general, of the British Isles.

TO THE LORDS OF THE TREASURY

BEFORE it is too late examine well the verbal counters used by those financial experts who are powerful enough—if their views are endorsed—to direct British financial policy.

Begin with the speech of Jan. 29 made by THE RIGHT HON. REGINALD McKENNA. This speech is suggested by way of compliment to Mr. McKenna as, admittedly, the best known of the powerful men of to-day who are skilled in conventional High Finance.

The following are a few extracts from it and notes thereon :—

"The most popular proposal for reducing prices is to fix a limit to the currency note issue."

NOTE.—Here the term "currency" is used as equivalent to "legal tender for the payment of any amount" (vide Treasury Notes).

"What is the relation between the increase of currency and high prices ? "

NOTE.—Here the term "currency" means media of exchange in general, including bank deposits in their character of spending power.

"It is an accepted doctrine that there are three factors governing the price of commodities, demand, supply and cost of production."

NOTE.—Here the terms demand, supply and cost of production are limited to the commodity side of the facts. The term "price" is not defined but is treated as quite understood, and its character as A SPECIFIC QUANTITY OF LEGAL TENDER OF UNCERTAIN QUALITY (also subject to demand, supply and cost of production) is entirely ignored.

"Again, chiefly owing to higher wages, cost of production has risen greatly, but in the sequence of events it has generally followed, not preceded, the higher prices."

NOTE.—There is ambiguity in the word "owing." However, Cause must always precede Effect. Therefore, as there is a connexion between cost of production and higher prices, and the higher cost of production has "followed, not preceded," the higher prices, the latter must obviously be the cause, not the effect, of the higher cost of production, which is not therefore "chiefly owing to higher wages." Moreover, "higher wages" being included in the term "cost of production" must also be caused by higher prices.

Thus wherever (as in the United Kingdom to-day) higher prices are caused by Legal Tender of a low standard or quality, e.g. paper mainly, instead of gold, Legal Tender is the underlying cause of higher costs of production, higher wages and higher prices; which three factors then work in a vicious circle of their own.

"Demand, measured by the purchasing power of the public, has increased enormously."

NOTE.—Here " demand " as subject is particular in a logical sense and concerns only the commodity and services side of demand facts. It entirely excludes demand FOR purchasing power (not necessarily legal tender) BY the public.

" As demand grows prices rise."

NOTE.—But prices (in a transaction as distinct from a quotation) are Legal Tender. Even while " demand grows " prices may FALL if the Legal Tender is changed in quality from paper to gold.

" First of all I will take the figures of currency."

NOTE.—Here " currency " is synonymous with both limited and unlimited legal tender, " i.e., gold, silver, copper coin, and bank notes."

The speech estimates that currency (in the last-named sense) held by the public in 1914 was £53,000,000, as against £202,000,000 in 1919.

NOTE.—The speech does not indicate that the £53,000,000 *of* 1914 *equalled more gold than did the whole* £202,000,000 *of* 1919.

" The actual spending power of the public is gauged by the total amount of currency in circulation added to the total amount of bank deposits."

NOTE.—The term " the public " is used in the sense of " the community as a whole " and its " actual spending power " is said to be the full amount of currency in circulation, plus bank deposits, WITHOUT ANY DEDUCTION WHATEVER FOR INDEBTEDNESS!—not even deduction of the amount of a cheque in the post, although the cheque may reduce deposits to that extent twice over: (1) *by wiping out a credit in one bank and* (2) *by cancelling a loan-deposit in another.*

—and so on through the speech, part of which, of course, is masterly and unassailable, but one further proposition in which must be noted :

" An arbitrary limitation of currency would merely inflict intolerable inconvenience upon the public."

NOTE.—This is true only if the term " currency " means " medium of exchange." It is false if " currency " is intended to mean " legal tender."

Increasing media of exchange enable more exchanges to be effected.

Increasing inferior-quality legal-tender, in further depreciating the standard of value, enables FEWER exchanges to be effected, although the nominal amount of the total of the prices paid for the same quantity of commodities and services becomes actually higher.

The darkest hour is before the dawn ! It is still comparatively easy for the £ sterling—made sound legal tender—to become the medium of exchange of more international trade than ever before, dominating even the almighty Dollar !

But it cannot be done upon principles which are a tissue of fallacies, all of which operate against this country and in favour of those persons (if any) who are determined that it SHALL NOT BE DONE.

TO THE SECRETARY TO THE TREASURY, U.S.A., MR. CARTER GLASS

BEFORE your appointment you were " sound " on bank note issues. That statement is made on the strength of utterances of yours reported in ***The New York Commercial and Financial Chronicle.***

Since your appointment you appear to have " missed your way."

You have not corrected the financial blunder made over Federal Reserve Notes.

Not only so, but you are going to convert that blunder into a BOOMERANG WHICH, AFTER HITTING HALF THE WORLD, INCLUDING GREAT BRITAIN, WILL RECOIL ON YOUR OWN COUNTRY, BRINGING BACK WITH IT THE REPROACHES OF EUROPE UNDESERVEDLY UPON THE AMERICAN PEOPLE.

The stupendous banking obligations outstanding in the United States (despite your gold holdings) are straining even the vast resources of the Federal Reserve Banking System !

NEARLY $3,000,000,000 in Legal Tender Federal Reserve Notes are in active circulation.

The issue of Federal Reserve Notes as Legal Tender in discounting " legitimate paper, with bankers' acceptances or bankers' endorsements " ***was based on the principle that:***

> " As the Government Banks from time to time buy this paper, the volume of their circulating notes,

which they issue in payment, increases, while on the other hand, when they collect this paper at its maturity and thus reduce their holdings of discounts, their outstanding circulation decreases."—*Quoted from pamphlet issued by the National Monetary Commission Document, No.* 402, *entitled* "*THE DISCOUNT SYSTEM IN EUROPE, by PAUL M. WARBURG.*"

But it is now clear to you that Legal Tender Notes do not decrease in circulation in accordance with this specious statement.

Yet the Federal Reserve Note Circulation MUST BE CONTRACTED! HENCE YOU ARE NOW CAUSING CONTRACTION OF 40 to 50 MILLIONS WEEKLY BY REFUSALS OF CREDIT FOR BILLS ON EUROPE. THIS AFFECTS ADVERSELY THOSE OF YOUR PEOPLE WHO MUST SELL IN ORDER TO COMPLETE DEALS CARRIED OUT WITH BORROWED MONEY. BEFORE THEY DO THIS THEY CANNOT EVEN GET CLEANLY OUT OF BUSINESS.

The Dollar itself is greatly depreciated through Federal Reserve Note inflation. It is base coin compared with the pre-war dollar. Its purchasing power, as evidenced in high prices of commodities and services, is so much below that of the pre-war dollar that wage-earners throughout the United States are seething with unrest!

Your strictures on credit enable Exchange Dealers to "peg" the British Exchange down to 3 dollars 20 cents (depreciated dollars) as the equivalent of £ sterling.

$3.20 buys next to nothing in your country, yet that is what you want to send to this country for £. As we could not, even if we would, accept this, YOU ARE IN EFFECT APPLYING A FINANCIAL BLOCKADE IN RESPECT OF FOOD and RAW MATERIALS, ALTHOUGH UPON THOSE RAW MATERIALS MANY OF OUR MANUFACTURES AND EXPORTS DEPEND!

Your bankers "will accept bills and give credit, only subject to the receipt of payment from this (London) side."

THIS IMPLIES THAT FINANCIAL BLOCKADES FACILITATE PAYMENT!!!

It proves how grievously mistaken you are.—It is not this side of the pond which keeps your credit expansion up.—It is your own side.

In stopping your Exports you will find this out. Exports are vital to your financial system in its present conditions. The Credit Inflation is occasioned by a fallacy and is maintained because YOUR OWN PEOPLE CANNOT PAY.

THE FOLLOWING IS THE FALLACY UNDERLYING YOUR FEDERAL RESERVE NOTE SYSTEM, A FALLACY NOT OBSERVED BY PAUL M. WARBURG:—

> TRADER No. 1 sells value A. to Trader No. 2 and draws a bill on Trader No. 2 which a bank endorses and which he discounts for *federal reserve notes*.
>
> TRADER No. 2 adds B value to parcel A and sells the lot to Trader No. 3, drawing on No. 3 and discounting, as in the previous case.
>
> TRADER No. 3 adds C value to B plus A value and sells out to a Consumer who pays in *federal reserve notes*.
>
> Out of these notes No. 3 meets the Bill drawn on him by No. 2; the Bank releases the Bill, and takes the notes out of circulation.
>
> The notes which thus have really stood for values A and B go out of circulation at the same time as A and B go out of existence.

NOW MARK THIS: Trader No. 2 meets the Bill drawn on him by No. 1, NOT with notes obtained from the sale of AB.

Those notes he had already, perforce, put back into his business.

He must now make sales of other goods before he can meet on its maturity the Bill drawn on him by No. 1. These goods he sells for Bills which he discounts for NOTES WITH WHICH HE WOULD LIKE TO MEET THE MATURING BILL, BUT HE CANNOT SPARE THE CASH FROM HIS BUSINESS AND MUST HAVE THE BILL RENEWED AS THE ALTERNATIVE TO FAILURE!!!

That is the point at which inflation complete and compelling is injected into your Circulation!

You cannot CONTRACT that Circulation without Disaster!

You cannot EXPAND that Circulation without Disaster!

THAT IS YOUR PROBLEM!

By hitting Europe you will expedite—against your own people—a dramatic and chaotic solution of that problem! —AND LEAVE YOURSELF WITHOUT TIME TO APPLY A SANE SOLUTION.

Like a financial Cranmer, Recant! Bring your Legal Tender Notes to parity with Gold. Request the British Treasury to do likewise. Do it by forcing the Cheque System and discouraging the use of Legal Tender, cancelling the surplus out of revenue or loans. Then compel Exchange Dealers to "peg" the Exchange Rate at par, making a scale of different charges for special services in transferring credits, the smallest charges to be made for discounts connected with the export of raw materials on which those countries which owe America money base *their* exports.

To find compensation for producers who would suffer by the fall in prices, reconsider the true functions and nature of Credit.

TO LORD INVERFORTH

AS one of the public addressed by you through *The Pall Mall Gazette* on Monday, Feb. 9, I take leave to comment upon some of your observations.

You prove that we have incurred "a large debt to foreign countries, principally the United States," through not having paid for Imports by Exports.

You ignore the gold we sent and our sale of outstanding debts to ourselves in the form of foreign securities, which liquidated so much of the debt.

You ignore the fact that so much of the debt is incapable of injuring us at the present time because it is in a state of suspended animation in the form of long and short-term securities accepted from us by United States Investors.

And you parade this debt as the "REASON WE ARE PAYING TO THE UNITED STATES, OVER AND ABOVE ANY INCREASE IN PRICE DUE TO THE GENERAL RISE IN PRICES, 5s. MORE FOR EVERY £1's WORTH OF COTTON, OR WHEAT, OR OTHER COMMODITY."

This is the strangest logic of all! Because G.B. owes U.S. a debt which he has made special arrangements about, any further transactions between the two parties shall assume that the money of G.B. is bad as compared with that of U.S.!

That conclusion is wholly unwarranted.

THE FACT THAT WE ARE IN DEBT TO THE UNITED STATES IS NO REASON WHY CLAIMS TO POUNDS STERLING SHOULD BE RATED UNDER PAR WHENEVER THE POUND STERLING WHICH IS ENFORCEABLE BY LAW (i.e.; legal tender) IS REALLY AT PAR.

The remedy for those high prices which are due to an adverse exchange is the prompt restoration of legal tender to parity with gold. If this is not done, then, quite apart from the debt we owe for what we have had in the past, the next £100,000,000 worth of commodities which we buy from the States is going to represent one-third of that amount in pre-war commodity value. (The buying power of the dollar in U.S. is 42 cents!)

If, on the other hand, it IS done, then, despite the debt we owe for what we have had in the past, the next £100,000,000 worth of commodities which we buy from the States will represent more than that in pre-war commodity value to the extent that the pound sterling will go to a premium in terms of a really depreciated dollar, less the increase in prices due to legitimate supply and demand, as apart from the increase due to tampering with legal tender.

Bitter consequences await neglect of this principle for the sake of Exchange Profits.

If America to-day wishes to pile up sterling credits here, it can do so at 3 dollars 80 to the £1.

Our EXPORTERS of coal and raw materials which this country NEEDS can convert the credits they so acquire in the States into sterling at the same rate.

Their profits from this source make them opposed to the restoration of our Legal Tender and the Exchanges.

BUT THEY ARE SELLING THE COUNTRY'S BIRTHRIGHT FOR A MESS OF POTTAGE.

THEY ARE BRINGING THE COUNTRY'S MANUFACTURING INDUSTRIES TO A STANDSTILL!

THE PLEA THAT THEY ARE RESTORING THE BALANCE OF TRADE AND PARITY OF EXCHANGE IS LIKE A MOCKERY OF THE DYING!

TO THE MASTER OF THE MINT

IF you were not a Government Contractor you would now have to go out of business. For (1) you cannot buy your raw materials cheaply enough to turn your goods out at a profit; and (2) the business of coining token money cannot be conducted without profit (i.e., seigniorage) seeing that you must be prepared to meet such coins with their full face value in (sound) legal tender.

As you are a Government Contractor, however, you are permitted to reduce the quantity of materials which you have hitherto used and to call the resulting goods or coins, so devalued, by exactly the same name.

In other words, the silver is going out of our token money, just as, less literally, the housewife finds the bread, butter, eggs, sugar, and cheese going out of it; as the furnisher finds the carpet, oilcloth, and utensils going out of it; and as the business man finds the real business going out of it.

Statesmen tell you that, as a matter of fact, all these commodities have gone "up"; but YOU know that our money has gone "DOWN." You use very little gold (if any) because you lose so much on every sovereign that you mint now. And now you are to reduce the silver in the silver coins.

You know, in fact, that in our ALLEGED money, the price of MONEY has so risen that such money has become too expensive to make without a process equivalent to debasement, or abrasion, or clipping.

The consequence will be that all prices will slowly but surely continue to rise reciprocally with this "fall" of Legal Tender, in so far as token money is legal tender. The reduced silver in the coins will have to be reduced again, for the same reason as the present one, if our present monetary policy is continued.

Like previous Masters of the Mint, such as Sir Isaac Newton, you know the whole story of Currency Depreciation.

The expansion period is a monetary paradise.

The money, though it costs little or nothing to mint or print, seems to the people as good as gold. It pays the soldier, builds motor transport, renews railways, lifts the mortgage off the farm! It would even build the houses wanted by the Wigan Corporation! It serves all—or nearly all—the purposes of the people who have it. It is such easy money. Nobody is afraid to buy anything with it because he is sure of being able to sell whatever he buys at a profit. In the boom the cry is raised by apparently intelligent people: "High prices mean prosperity; the higher the better!" As they rise, the women (like the Southern women of the American Civil War) go to market with basketfuls of money; few notice that the goods which they bring back would fit into a purse! Who remembers that in sane-currency days the money might fit into the purse but the goods required several baskets? Still the prices rise, while purchases grow smaller. Vital goods become unobtainable. Wages rise until they are out of sight; for industry after industry stops; as your silver industry eventually must.

Then say the Powers that be, PRICES MUST COME DOWN AT ANY COST!

But it is found that hardly a business concern left in the country could keep going with lower prices.

Expenses, like cost of labour, overwhelming taxation, high local rates, etc., cannot be reduced!

Contract the currency ever so slowly and the people miss THE WONDERFUL MONEY. Scarcer and scarcer it becomes. Everybody in trade fears to buy lest he should be unable to sell and thus unable to get his money back, to say nothing of a profit.

Goods in stock at high prices cannot be parted with at low prices, eager though the trader may be to get the money. Wage-earners grow angry over the equation between high rates of pay and no work on the one hand and no work and low rates of pay on the other.

North, South, East, and West, every one somewhere is forced on to the horns of some particular dilemma!

Only once has the problem been solved without tragedy upon tragedy!

The United States was saved from the Greenback Crisis by abundant harvests which a starving Europe was able to pay for out of an abundance of gold and manufactures.

That is not our position to-day!

What the gold did was to restore soundness to the Legal Tender!

(The gold had this effect on the Greenbacks, irrespective of its effect as a commodity on the balance of trade.)

What WE must do is to restore soundness to OUR Legal Tender!

Thanks to our Cheque System, we can do this at once! The contraction to gold values can be counterpoised by the investment of productive properties with the privilege of credit-right, interest free and otherwise free, except for certain small charges and the creation by the recipients of a Treasury Reserve equal to one-twentieth of the total.

The credit would create abundance, in excess of its redemption requirements, because it would be assigned wholly to productive purposes or it would discharge obligations which would be driven to productive purposes.

The principle of economic equilibrium could be applied to prevent over-production or over-competition in any particular industry.

The Industrial Armies menacing the State would have no "case," or support from rank and file, in the enormous competition for wage-earners which production, on this great and varied scale, would establish.

The £ sterling would be the currency of the world!

The British Empire has never been so stable and prosperous as it would be when (under productive credit-right) it had grown into a vast Imperial Credit Union.

TO THE SEWING COTTON COMMITTEE

I HOLD no brief for Messrs. Coats'. Far from it.

But I am much interested in our Legal Tender Policy and its (now intensive) cultivation of chaos in our trade and manufactures.

Therefore, I desire to call your attention to two points :

(1) IN 1913 £3 17*s*. 9*d*. would buy an oz. of gold or a correspondingly substantial quantity of any other commodity.

IN 1919 £3 17*s*. 9*d*. will buy 57 per cent. less than an oz. of gold, or a correspondingly LESS substantial quantity of any commodity other than gold.

This means that the purchasing effectiveness of 1919 money is 57 per cent. below that of 1913 money, APART FROM EFFECTS ON PRICES PRODUCED BY PURELY-COMMODITY SUPPLY AND DEMAND !

It means also that it is highly fallacious to call £3 17*s*. 9*d*. of 1913 THE SAME THING AS £3 17*s*. 9*d*. of 1919 and THEN to reason that prices are jumping upwards SOLELY through relations of GOODS AND PROFITS, and not in any serious degree through CAPERS OF THE MONEY IN WHICH THE PRICES ARE QUOTED.

(2) The net profits of Messrs. Coats' are given as follows :—

£2,773,998 in 1913

£3,694,011 in 1919.

But as the purchasing effectiveness of the money of 1919 is 57 per cent. below that of the money of 1913, the net profits of 1919 by comparison with those of 1913 can only be TRULY stated as

£1,588,424, or £1,185,574 LESS than those of 1913, when there were no complaints.

WARNING ! The more obstinate that we become in our disregard of basic realities, the more dire will be the maturing consequences.

TO FINANCIAL CRITICS

A Leader Writer says :—

"MR. ROBERT BENSON, who possesses the unusual advantage of combining practical business experience with a thorough knowledge of the principles of economics, dealt exhaustively with the subject, and his conclusion is that expansion of currency is an effect of high prices unless forced into circulation, as it has been in Germany and Russia, when it becomes a cause."

With all respect for anybody who has a thorough knowledge of the very elusive principles of economics, I submit that any currency which is legal tender for the payment of any amount, and which it is therefore an offence against the law to decline to accept in payment, is a forced currency, being forced by the Government into circulation, that therefore the evil effects of a forced circulation are in operation, and that the professors who assert that our currency is as much forced as it is in Germany and Russia, that it is only a question of degree, are quite right.

THE CARDINAL ERROR OF SOCIALISM

TO MR. ERNEST BEVIN

YOU are reported by the Press to have said :—" Mr. Lloyd George charges us with a desire to overthrow the capitalist system. For once in his life he is right."

You would destroy the Capitalist System. Yet is destruction a sound policy ?

Destruction on the appalling scale of the world-wide war has done but little good service to the nations generally.

Beyond an exceptionally well-favoured few who have demonstrated that gigantic fortunes may be swiftly made, the condition of the people in any of the warring nations seems to be rather worse than better than it was before Destruction on the grand scale obtained its wondrous opportunity.

These gigantic fortunes which have excited so much envy represent very few pounds per head of the population, and they are pounds which are incapable of distribution because they subsist not positively, but negatively, as evidences of debt.

For the wage-earner, you claim quite properly home comforts, leisure, enlightenment, entertainment, and an adequate nest egg for old age—a higher standard of living during working years, which can be maintained, without work, in the evening of a sufficiently well-spent life.

Yet individuals who have attained that standard are anathema to you, and the system by which it has been attained you would destroy.

Your logic is hopelessly at fault.

What you really want is that every individual wage-earner shall have the opportunity to attain to a high standard of living. That being so one would imagine that you would endeavour not to *destroy* but to *extend* the system which has proved itself capable of giving to individuals that condition of life.

Instead, however, you would destroy that system and substitute one of socialism, or communism, or common ownership, which does not even aim to promote the object which you have in view.

Socialism is diametrically opposed to that Nation-wide Individualism which you really want.

Your efforts to make the poor rich by making the rich poor would end in making every one poor. That is what communism has always done.

But nation-wide individualism can make all individuals richer. How? Thus:—

In effect, the Capitalist System until now has been a closed System.

Open it!

It contains a pearl of great price—the instrument of nation-wide individualism.

That instrument is Credit guaranteed by the Nation through the Treasury. Manufactured credit normally is written up in Books against Promises to Pay guaranteed by Paper Securities. National Credit may be written up in Books against Promises to Pay secured by Productive Properties and guaranteed by the Government. This is made possible by the Capitalist System.

Thus, instead of transfers of the credit of individuals being made to the Government on loan at no interest (as

Lord Buckmaster has proposed) the Government would localize transfers of national credit on loan to individuals at no interest.

But the Credit would have to be used solely for the creation of its equivalent in new productive capital, in order to multiply production, cause competition for wage-earners, make labour so relatively scarce that its value would eventually make all human units function fittingly as intelligent directors of highly productive machines instead of being direct hewers of wood, drawers of water, beasts of burden, matter without mind.

The necessity of preserving economic equilibrium between particular kinds of production and consumption, combined with the right of every producer to claim credit for further production, would create many new forms of production.

The invested capital which would be displaced in the operation would require new forms of investment for income.

This would furnish ample funds for cheap borrowing and social reforms.

Investment capital would be made dynamic. None would remain static and parasitical.

The vast debit against industry, which evils of the closed capitalist system have in course of time created, would thus be liquidated by the virtues of the open system as exemplified by productive credit—credit as productive as that which the war created was destructive, credit which would finally produce contentment and prosperity for all.

Through extension of the Cheque System for economizing the use of legal tender money, gold value would be restored, as the basis of the credit scheme.

Gold values would lower the proportion of high prices which reduces supplies.

Increased supplies, included in more production, would lower that portion of high prices which is due to scarcity.

Producers who would otherwise suffer through the fall in prices would be saved by the privilege of the new and cheap credit.

The COST OF LIVING would be REDUCED, whilst the COMPETITION FOR THE SERVICES of the WAGE-EARNER would be increased.

The scheme would apply to any country according to its capacity for adopting our cheque system on an extended scale, or any substitute therefor except the issue of legal tender notes.

This country would be safeguarded against future financial embarrassment by the payment for the guarantee of the nation which would be made for his share of credit, by the producer, in a fee of one-twentieth part of the amount.

These fees would accumulate in a Treasury Reserve.

This would be permanent while the credit itself would be temporary; in constant process of redemption by instalments fitted to the conditions of each case.

Before the Act could itself operate the moral effect of its appearance on the Statute Book would immediately improve the general economic situation.

"*THE ECONOMIC CONSEQUENCES OF THE PEACE*"

BE as kind to yourselves as you are asked to be to the Germans!

Asked by whom? By John Maynard Keynes, C.B., in his book entitled *The Economic Consequences of the Peace*. This book is so fine a piece of special pleading that its author is now the economic notability of the day. But in proving what the Germans cannot pay it implies inevitably what the British cannot pay!

It proves not only that Germany could not pay £8,000,000,000 under the indemnity clauses of the Peace Treaty, but that even were the sum reduced to £2,000,000,000, and £500,000,000 of this sum set off against the surrender of property under the treaty, Germany could not even then pay the balance of £1,500,000,000, unless it were not to carry interest pending its repayment, and were payable in thirty annual instalments of £50,000,000, beginning in 1923.

This statement is quite true, as events will prove. But why cannot Germany pay under the terms of the Peace Treaty? Because her mode of payment involves the accumulation of the bulk of both interest and principal at compound interest; and at 5 per cent. compound interest a capital sum doubles itself in fifteen years.

As Mr. Keynes rightly judges: "It is as certain as anything can be that Germany cannot pay anything approaching this sum"—in that time.

GERMANY'S DIFFICULTY

Nevertheless, there is nothing in his book to prove that Germany could not pay the whole of the indemnity of £8,000,000,000, without interest, by 160 payments of £50,000,000 per annum, instead of only £1,500,000,000 by thirty such payments.

It cannot be contended seriously that Germany cannot pay 10*s*. per annum per head of her population (the 10*s*. decreasing inversely with any increase in the number of heads).

The point is that Germany cannot pay unless she is relieved of the stupendous effects of compound interest. But what about the enormous obligations of the working section of yourselves (the British people) to the investing section?

Are not those obligations accumulating at compound interest just the same?

The nation as a whole has undertaken to pay them to the investing section. It is, therefore, in honour bound to pay! But can it possibly pay without a striking modification of the financial system underlying industry? Its war debt of victory is £8,000,000,000.

But who is asking that only £50,000,000 per annum for 160 years shall be paid?

Who is pointing out that even that would be a greater hardship on one section of the British population of 46,000,000 than upon the whole of the German population of nearly twice that number? Are not you, the British people, being told that if you consume less, spend less, and produce more, you will be able to redeem this debt of £8,000,000,000—a greater debt than Germany's war debt, plus an indemnity of £2,000,000,000?

When the war debt and privately invested capital, which drew interest and redemption, were limited to pre-war dimensions, one-third of the population was constantly on the verge of starvation! To-day the war debt is eleven times greater in amount and private investment funds are vastly increased, whilst the working section of the community, which must grind out the return upon them, is actually smaller.

MAN AND MACHINE POWER

The development of machine power per man makes production capacity greater only in such occupations as lend themselves to machine power. The total production capacity falls far short of the colossal requirements, and a desperate conflict between the investing and working sections of the community is being rendered inevitable by the folly which expects that those requirements can possibly be met without help on equally colossal lines for the productive working section of the nation!

Now, just as it is being asked that Germany shall give promises to pay which shall bear no interest, but be redeemed by thirty or more equal annual instalments of the capital sum which these promises to pay are to represent, I have, during the past five years, been asking that promises to pay, which shall bear no interest, shall be permitted to British producers, and be redeemed by them by a specific number of annual instalments totalling the capital sum which these promises to pay are to represent.

They are to be based on a credit-right vested in productive properties to half the gold value of such property, and created as bank credits against that right. They are to be used solely for productive purposes, so that production may be multiplied in every conceivable way, short of destroying economic equilibrium, which an advisory council would be formed to conserve.

Thus would the nation as a body, in permitting its producing section to create easy credit, counterpoise the debit which the nation as a body owes to its investing section, and enable that colossal debit to be met honourably and prosperously without confiscation or levies, predatory taxation, or a clash of physical forces.

BUDGETING FOR DISASTER

IT has been said that if the rent of every landlord, the profits of every employer, the interest paid to every capitalist, and the money value of all the paid labour engaged in production, which represent the total wealth produced in the United Kingdom in a year, were added together, the sum would not exceed £2,000,000,000.

Yet of this production the Chancellor of the Exchequer, in our curious scheme of National finance, proposes to take £1,418,000,000 (for whoever may pay, the ultimate source is production), and to distribute it mainly amongst unproductive workers in this country and abroad, in Mesopotamia, Egypt and elsewhere, using, contingently, a comparative trifle in redemption of National Debt.

The difference between £1,418,000,000 and £2,000,000,000 is £582,000,000 which is approximately the sum out of which the entire producing community and their dependants must defray their cost of living for the year.

But as £1 per week for, say, 30,000,000 persons, for a year, amounts to £1,560,000,000, the effort cannot succeed.

If one person could live on £1 per week, which at the present price of commodities and services is barely possible, nearly £1,000,000,000 would have to be made up from accumulated savings. "Twenty such Budgets" would therefore mean that, in order to live, to redeem a debt of roughly £8,000,000,000, accumulated savings, which unfortunately *do not exist*, to the sum of £20,000,000,000, would have to be consumed. This is Budgeting per impossible; and yet it is to be tried.

The earmarked excuses are idle ones. Instance the loss on the Post Office Services as the reason for making the course of production harder.

Would it not be wiser to sell these services to private enterprise for a good round sum supported by guarantees of efficiency? This would reduce the annual requirements of the Budget by at least £50,000,000, and also provide a handsome sum, by way of purchase price, for both the monopolies and the Government property involved. This price, accepted in the form of Government securities, would either save interest, instead of incurring a loss, or, if cancelled, would redeem debt. There are other national assets, and municipal ones too, which ought to be dealt with in a similar manner.

If the new Budget is necessary, the realization of all available assets is necessary also!

But is such a Budget necessary? And is it possible that to eat up unproductively the productiveness and the accumulated wealth of the country, year by year, can "Leave to our successors an ample revenue, and to our country a national credit second to none"?

What is the matter with national credit now if we but use it to produce those instruments of production, productive property of the greatest practicable variety, on which national credit, both for cultivation and redemption, must ever depend?

On the use of credit, Mr. Chamberlain, out of his own mouth, condemns his own Budget, in the words:—

"But a new creation of purchasing power based solely on Government credit, uncovered by any increased production of wealth, can only lead, if unchecked, to ultimate disaster."

But it is on Government credit that the new creation of Government purchasing power in this Budget is based by means of values inflated by reference to a depreciated standard created by the Government itself; and this credit is not only uncovered by any increased production of wealth, but is to be used with no pretensions to production and with those destructive effects which lead, "if unchecked, to ultimate disaster."

NATIONAL CREDIT IS SOMETHING WHICH MAY BE USED PRODUCTIVELY BY INDIVIDUALS IF NOT BY GOVERNMENTS.

The shceme of credit-right put forward early in the war period by myself requires that credit so obtained shall both be covered by existing productive capital and be employed to the uttermost farthing either in the creation of further productive capital or in the relief of charges upon existing instruments of production.

No valid objections have ever been raised to the principles involved. In the early stages of the war I was informed by a City man that I had put my finger on the right spot; that the idea was known to be sound; and that the attempt would be made to kill it by SILENCE.

I said then, as I say now: "Force of circumstances will compel its adoption as the alternative to social upheaval." Such circumstances cast their shadows in such Budgets as that of Primrose Day! This Budget shows how necessary are the gradual refunding operations which, as good faith permitted, would be rendered possible, under a scheme of credit-right, by the release of investment funds now burdening existing productive properties. The rate of interest at which these operations could be carried out would prove that Government credit is not rated to-day at 7% because of anything that is wrong with national credit. 3½% would attract all the funds required when general productive industry was not only not being stifled by predatory taxation and threats of a levy upon capital, but on the contrary was endowed with a special privilege.

Taxation of the extraordinary nature of that provided in this Budget is wholly unjustifiable on economic grounds. It is economic folly to expect that the vast obligations of the nation can be met either by its present limited productive capacity or by the appropriation of funds by means of which that productive capacity might conceivably be extended. It is also economic folly to expect, as certain financial interests do, that the return from the industry of those who must pay to those who must be paid, involved in interest on the National Debt, redemption of the Debt, Government expenditure, and private funds, invested and to be invested, all with compound interest effects, is not now far too great to be obtainable from the industries of the country on orthodox lines.

For this situation a remedy is needed; but confiscation is a futile and delusive expedient, not a remedy.

The true remedy lies in helping, not hindering, industry.

The privilege of credit-right would furnish the necessary help on the necessary terms. It would enable production not only to bear all the burdens which must be budgeted for, but also to yield the income which investors seek.

Confiscation, whether by taxation or by levy, is not a remedy, but an iniquity!

When an outstanding credit is confiscated for the purpose of cancelling a debit, it is a theft not only of principal but of compound interest throughout all time!

No State ever survived the application of this pernicious principle. No statesman ever applied it without a grave breach of trust.

In a Christian country the general conscience rests upon the Ten Commandments. Individuals without such a conscience often succeed, but systems of government never!

Of debt, Mr. Chamberlain takes too narrow a view. He believes that if we owe a debt to ourselves instead of to America, " The burden of external debt will become a valuable national asset."

Fallacious use is made of the word " National." It is made to *denote* the whole nation, but *connotes* only a part.

If our internal debt is an asset, and the debt is so colossal, why should it take such Budgets as this to enable us " to rise to the level of our great responsibility "—the rebuilding of our national credit ?

The Budget contradicts the opinion that the debt is a *national* asset. It shows it to be an asset to particular individuals, but a grave liability to the productive community ! Therefore the public must be considered as separate human beings, distinct from figures on a balance sheet, in our national finance.

We should *credit* where we must *debit*, as, quite properly, we *debit* where we must also *credit*. The fundamental principles of Credit permit this policy in the interests of production and national salvation.

A TAX ON TURNOVER

SUGGESTED MODIFICATION

SIR OSWALD STOLL'S INTERESTING PROPOSAL

WE have received the following communication from Sir Oswald Stoll :—

" My view of Mr. Chamberlain's opinion of a tax on turnover is that it is not only accurate but is also a strong condemnation of his own excess-profits duty and corporation tax. His objection to a tax on turnover is that it falls again and again between the original commencement of production and the time when goods produced reach the consumer. This signifies that it either raises the price at which goods can be produced or stops their production. Now that, in my opinion, is exactly the effect of such taxes as the excess-profits duty and the corporation tax.

" In applying any of these pernicious taxes the Chancellor is either raising prices inordinately or decreasing supplies. When the further raising of prices, by having legal tender of a depreciated standard money as the measure of prices, is taken into account, it is not too much to say that the policy of enhancing prices and stopping supplies is being pursued with an utter disregard for national economics ; that is, economics applied for the benefit of the nation as individuals, not for the benefit in the nation's name of a few international masters of organized finance in order to make the bulk of this nation and of other nations their civil, military, naval, industrial and domestic servants, victims of one-sided considerations and supposed national (?) progress. Taxation which will neither inflate prices nor stop supplies is good; and, as Mr. Chamberlain himself implies, taxation which will raise already high prices or stop supplies is bad.

"A tax upon turnover, however, is a suggestion which should make for a form of taxation saner than those forms which leave the taxpayer with the burden of high unofficial taxation, in the shape of unduly high prices, as well as the high official taxation to provide for Government expenditure inflated unduly by high prices.

A Tax on Finished Products

"Early last year I suggested a national tax to be paid by the consumer of finished products. Many authorities have shown that in any form of taxation the consumer ultimately pays. In your special article of May 17 some trouble is taken to prove it. Hence, if the consumer were required to pay a consumption tax on every finished product consumed, food included, he would merely pay directly what he must otherwise pay indirectly; whilst through this tax being imposed in the place of taxes like excess-profits, corporation tax and super-tax, which increase the cost of the production of what he consumes, he would find himself much better off.

"Thus, costs of production would be lower by the avoidance of the cumulative effect of increases at every stage of production. Costs of production being lower, what the consumer purchased for consumption would be actually cheaper, and, therefore, could be sold to him cheaper. Such products being cheaper there would be a greater demand for them. The greater demand, in face of lower costs of production, would cause an increase in supplies, and increased supplies would tend to the further lowering of prices. Increased production induced by lower costs and greater demand would decrease unemployment and find work in places where housing wastage is now going on, through houses being available where there is no work to be had and work obtainable where there are no houses to be had.

"The entertainments tax is not so much a tax on turnover as a tax upon the finished product, such as I suggest. It is clear that if the entertainments tax had to be provided on the production of the entertainment, whether that product were sold or not, it would promptly put an end to the production of entertainments. The cost of such entertainments would be so increased and the market for them when produced would be so uncertain that very few managers could afford to take the monetary risk involved in their production. But the entertainments tax does not increase the cost of production, and is only imposed on the consumer of the product. So a tax on all finished products would admit of production at the lowest possible cost and be payable only in respect of the products sold as well as payable only by the consumer. All persons being consumers the tax would be a truly national one.

Expected Yield

"Of course, the amount of a yield of 2*d.* in the 1*s.* tax on sales of all finished products would vary with the purchasing power of the public generally. With the public prosperous it could yield nearly £400,000,000 per annum, estimating the consumption capacity of the nation at £1 per week per person of the total population.

"The Government could avoid the coming crisis (the most terrible in history) and make the people even more prosperous than such a yield requires, if it would apply the now necessary heroic measures which (1) would rectify our legal tender money and (2) vest credit-right in productive properties, for the creation of further productive machinery or the relief of existing charges against production. This creation of productive credit the law of credit compensation, after the war creation of destructive credit, absolutely and urgently demands. It would make the whole community prosperous.

"The entertainments tax was a dangerous impost to place upon a restive people. The bulk of the people were so prosperous, however, that they paid it willingly. Those who could not afford to pay it caused many inferior houses of entertainment to close down, and, being driven from the pictures, these displaced members of the public did not help to minimize unrest. Still, if the people are prosperous, they are willing to pay a tax of this nature. That fact the entertainments tax has proved.

Small Cost of Collection

"A tax upon finished products is, therefore, a clear way out of his difficulties for any Chancellor who prefers the general prosperity of the people to the mere domination of the people by organised international finance. The cost of collection by stamps on purchases, by audited accounts, and other means applied in the collection of the entertainments tax would be small in comparison with the yield. But such a tax under the credit conditions which it is in the power of the Government to create would save the State."

[Sir Oswald Stoll's suggestion is worthy of careful consideration. We would point out, however, that from the consumers' standpoint it would matter little whether there was a small tax on the various processes of production and distribution, as we advocated in our issue of the 17th inst., or a comparatively heavy tax on the finished product. Sir Oswald Stoll suggests an impost of 2*d.* in the shilling. That is a very high charge, especially upon small purchases. We would further point out that, in our article of the 17th inst., we expressly exempted from the proposed tax business transactions, such as theatre tickets, transfers of property and shares, already liable to comparatively heavy special taxation.—Editor, *Financier*.]

WHAT MUST WE DO TO BE SAVED?

JOSEPH'S coat of many colours was a model of sartorial propriety compared with the coat now being worn by the British Public, as represented by Parliament.

One patch of the garment, Nationalization, does not quite harmonize with another patch, Existing Bureaucracy, and is in violent conflict with Private Enterprise, which again, alongside Communism, is a chromatic outrage, as great as the patch called Individualism ; the latter, curiously enough, being represented by a single patch, instead of by many.

As required by the philosophy of clothes, this motley coat colours the thoughts and actions of all the members of the body which wears it.

This may be exemplified by passing from figures of speech to figures of men.

Next to Mr. Lloyd George, the biggest figure in Parliament is probably Mr. Bonar Law. His big mind has in consequence become imperfectly kaleidoscopic. His thoughts, placed together, show different colours, which will not blend. Yet the fate of the country is largely in his hands.

He believes in Individualism. Has he not said :

> " The whole prosperity and growth not of this nation alone, but of all the nations that have arisen, has been based on individual initiative and individual

effort—(hear, hear)—and if anyone believes that you can get the same results by any system of officials they know nothing of history and they know nothing of human nature—(hear, hear)"? (Albert Hall, Friday, May 7th, 1920.)

That is admirable, as his hearers also thought.

He believes that Individualism is the vital instrument of national prosperity and growth.

YET IN THE SAME SPEECH HE DEFENDS THE NEW BUDGET!

The colossal levy of the Budget can be made "only by getting it from Industry."

"They (the Government) must make a big hole in this debt."

"The people to make the hole were those who were making money."

That is, the people who are keeping the country going must be deprived of their resources because the others have no resources which the Government can deprive them of.

Previously in the speech he had expressed himself as "not sanguine enough to believe that this period of prosperity would not sooner or later be followed by dull times." No wonder!

This remark is a grim joke; worthy of Thomas Hood's

"Ben Battle was a soldier bold,
And used to war's alarms,
But a cannon-ball shot off his legs,
So he laid down his arms."

When one is shooting off the legs of Industry, it is safe to predict that Industry will collapse.

There is glaring inconsistency between this Budget and Individualism.

Why were the vast sums of the Budget required? Because "they could not reduce expenditure in that way (dispensing with new and bringing back old departments)."

But would not Government expenditure and debt be vastly reduced if every function now performed by the Government and capable of being performed by private enterprise were handed over to private enterprise, there to bear its quota of the lesser taxation which the Government would require, instead of helping to swell taxation to which it makes no contribution?

Activities transferred from "under Government" to private enterprise would prosper and grow under that "individual initiative and individual effort," of which the same results cannot be got (in Mr. Law's own words) "by any system of officials."

Surely, to refrain from making such transfers, and to prefer such a Budget, is to prevent full scope for individuality and ability?

Is it credible then that in this speech Mr. Bonar Law is reported to have said:

> "Any attempt to prevent full scope for individuality and ability *would be ruinous to any nation which attempted it*"?

That assertion is absolutely true; yet the attempt is being made with the approval of Mr. Bonar Law himself, without whose support it could not be done.

But that is not all.

Not only does the Government refuse to transfer expensive public services to private enterprise, which would reduce expenditure and promote the valuable, vitalizing quality of Individualism, but by means of an iniquitous Budget it is establishing a permanent limitation to the "scope for individuality and ability."

This Budget will in fact make a "corner" in Individualism. It will prevent absolutely the Individualism which might become Nation-wide, because it will place in a position of difficulty and embarrassment every individual not in a position to command credit for the conduct and development of his business.

It will hand over to a few Controllers of credit on a gigantic scale the power to impoverish hitherto successful men who by absorption of their business concerns at forced-sale prices will be reduced to subsidiaries and dependents.

The somewhat bigger type, the live man with a fortune made through the disorganisation of war, is a menace to the growing control by great financial interests of the business operations of the entire world. Though this millionaire is small fry compared with controllers of thousands of millions, his existence sets back the plans of orderly progress towards too-ambitious control in every country.

But this Budget will "scotch" him in Great Britain, and put him where he is wanted; whilst the mightier Crœsus sits back smiling behind world-wide projects and a choice cigar.

So are the lesser rich to be mocked by the greater, while "Labour" (think of it!) *applauds*.

Finally, instead of contracting credit by indefensible taxation, and penalisation of successful industry, credit should be expanded for the express purpose of creating more productive capital, i.e., instruments of production, upon which the financial credit of the nation must rest; for as Mr. Bonar Law, however wrongly he applies it, very truly says: "The financial credit of this *nation* is the rock upon which improvement of any kind must be founded."

The Budget is the crux of the question.

Are our Statesmen to become cats' paws in financial strategy?

THE COMING CRISIS

WHO can deny that we are on the verge of a great financial and economic crisis?

Hundreds of enterprises are held up by costs too high to admit of sane capitalization!

Thousands of enterprises necessary to keep the economic wheel revolving are on the brink of failure because they cannot buy cheaply enough or sell dearly enough!

Buyers want lower prices. Sellers want higher prices.

All of us who are both buyers and sellers are in a quandary.

Bankruptcy threatens "commercial men in many spheres" if prices fall; yet the call for a fall is wide and deep.

Do we intend to walk open-eyed into the jaws of the most terrible economic upheaval the nation has ever known? Occupying our minds *en route* with futile ideas of Capital and War Levies which, if practicable, would strike the country with sudden and complete industrial paralysis.

Financiers' Finance, with its checkmates by rival groups, is ruining the country.

A number of Financiers no more make Finance than a number of worldlings make a world!

National Finance has never had a chance.

Our Treasury's idea of it, in relation to the country in general and the taxpayer in particular, is *to Give Too Little and to Take Too Much.*

The aim of National Finance should be some prosperity for all Nationals, not all prosperity for some Internationals.

Our new Budget will impoverish the National Rich, remove them from the path of the International Rich whose world-plans their wealth menaces; create emigration on a great scale, through unemployment, for the furtherance of those plans; and leave the country to pass through the valley of the shadow for generations to come.

The Chancellor should cancel both the Excess Profits Duty and the Corporations Tax and also reduce both the Super-Tax and the Death Duties.

He should be a shield for our defence rather than a sword to wound us.

The shield exists could he but see it in a true conception of National Finance and National Credit.

Because we are in debt Credit is being restricted.

This is financial madness from the National standpoint.

Credit may redeem Debt as Diamond cuts Diamond.

Credit must exist for the good of the people, that the people may exist for the good of Credit.

Where there is Credit there is business.

Contract Credit and you contract business.

When Credit is expanded so is business.

Credit however is never to be desired for the sake of Credit, but for the sake of the use to which it may be put.

In War: for Production, having for its end Destruction.

In Peace: for Production also, but having for its end Construction.

World shortages of essentials created by the war are being intensified and perpetuated by misconception and misdirection of the true uses and principles of Credit. Demand has ceased to be Effective!

In the relations of Interest to Credit High Interest for Destruction and Low Interest for Construction are alone sound.

In National Credit God made both the principle and the principal and Man made the interest.

Capital and Labour alike, Be warned in time!

For Production on the great scale a nation must provide Abundant Credit at Negligible Interest Charges and reduce Taxation of the Producer.

Production on the great scale will save us; will make the basis of the Internal National Debt sound. To do that is more important than to repay the Debt.

Repayment may take place with advantage by easy stages.

Out of Production on the great scale we can make abundance of goods, remunerate labour with not only high but real wages, establish credits abroad with which to cancel floating and fixed foreign debt, bear taxation adequate for Imperial Defence (the only justifiable government *business* enterprise), and become a contented people.

Sound money, Credit-right and Private Enterprise (made capable of nation-wide application) are the way to general prosperity.

Unsound money, Limited and costly Credit and already too much Public Enterprise, with the promise of more, are the way to chaos and desperation.

This is a law of Human Nature:

"Invidious Restraint, under Knowledge far more than under Ignorance, excites the wildness, barbarism, and fierceness of men's minds."

The day for Credit-Right and its Corollaries instead of Credit Restraint has arrived!

This is the chance for *National* Finance!

THE CHANCELLOR'S RED LIGHT!

WORDS that fall officially from the Chancellor of the Exchequer of the day are fateful. How startling therefore are these:

> "Capital must be conserved for public and for business needs; speculation must be discouraged and a better response must be given than has hitherto been made to the new Treasury issues and the Treasury Bills, but particularly to the new Treasury issues. The Bank reserve is lower and the currency note issue is higher than any of us would wish to see. To-morrow's returns will show Ways and Means advances largely increased in consequence of the payment of the June dividend.
>
> "That is all right, if it is a purely temporary phenomenon. The whole question is, will it be temporary? If it is more than temporary, it is a danger. There is no room for speculation; there is no room for rashness. Money is dear. Is it going to be dearer? The remedy is in the hands of the possessors of money. If they will conserve it, if they will follow a cautious policy, if they will not inflate credit or over-lend for trade, if they will encourage investors and themselves to meet the public need, then we may avert the peril, and I hope we shall."

Will those words bear examination?

"Capital must be conserved for public and business needs."

What is meant by "Capital"? Is it Instruments of

Production, or Invested Funds, or Funds awaiting Investment, or Funds accumulating for Investment?

How can Instruments of Production be conserved for public and business needs if prices are so high, materials so scarce, the strain of taxation so tense that ordinary repairs and renewals for maintenance cannot be carried out?

How can they be conserved if costs of production are so heavy that works are being closed down to rust and rot?

How can Invested Funds be conserved for public and business needs if public and business charges against them are frittering them away in falling market values?

How can Funds awaiting Investment be conserved for business needs if the capitalization of new enterprises is rendered so inordinately high by the rate of public and business charges that the figures required to yield the necessary return are, in the first place, too fantastic for realization, and in the next place, should they be realizable, are threatened with confiscatory taxation?

How can Funds awaiting investment be conserved for public needs when all such Funds previously invested prove that funds so employed have not only not been conserved, but have involved heavy capital losses?

How can Funds accumulating for Investment be conserved for public and business needs if they cannot accumulate in view of the fact that an amount of profit of to-day of less purchasing power than a pre-war profit of half its amount is regarded as including an excess profit of which the Government may confiscate 60 per cent.?

If none of these meanings can be attached to the word Capital the expression used by the Chancellor is meaningless.

"Speculation must be discouraged."

How much of the business done since the Armistice, outside the laudable attempts to restore instruments of production appropriate to peace, has been *anything but* *speculation* for profits from the ever-rising prices which are reciprocal to an ever-falling money standard ?

"The Bank reserve is lower and the currency note issue is higher than any of us would wish to see."

Is not this the direct result of the financial policy of the Treasury, which controls the currency note issue, and gambles upon currency notes being real money when they are even less real money than the Bank Reserve is a real Reserve ?

"To-morrow's return will show Ways and Means advances largely increased in consequence of the payment of the June dividend. That is all right if it is a purely temporary phenomenon. The whole question is, Will it be temporary ? If it is more than temporary it is a danger."

Who but the Treasury as the responsible Paymaster of the country can draw upon Ways and Means ?

Is not "The June Dividend" merely incidental to a general financial policy, of which there will necessarily be other incidents ? Is not the danger really the fact that increasing expenditure is outstripping decreasing income, because the national tax-spending capacity is exceeding the national tax-paying capacity owing to a financial policy based (1) on an unsound monetary standard which increases the cost of government and everything else and which, when the price peak is reached, brings business down with a run ; and (2) on expensive methods of palpable State Socialism founded on principles of Nationalization which the Government publicly condemns ?

"There is no room for speculation ; there is no room for rashness."

But the elusive money standard policy of the Treasury is an actual, and is by far the most effectual, cause of both speculation and rashness.

"Money is dear. Is it going to be dearer ? The remedy is in the hands of the possessors of money."

The possessors of money! Why, of what is nowadays *called* money, the chief possessor is the Government itself! The purchasing power of credit is Money to-day, and the Government possesses the purchasing power of the general Credit of the people! The remissness of the Treasury lies in the fact that it does not recognize this position and possession, although it evidences a misconception of the idea by printing an excess of paper money.

Never before did a Chancellor in set terms acknowledge absolute control of the Government and the country by the financial community. At a time and in a country when and where it is well known to every one that, without its monetary element, trade is paralysed, the Chancellor says: "Money is dear. Is it going to be dearer? The remedy is in the hands of the possessors of money."

It is known that the financial community alone has the power under present financial regulations to transfer credits; and they, it is admitted, have thus the power to make money cheap or dear, i.e., to make or break the power to trade.

If that is true, ought not the regulations to be changed? It is true, but true to an extent not great enough to remedy the evils of the present situation. That is, the financial community has the power to make trade bad enough for the forlorn hope of a way out through wreckage, but not to make it good enough for a sure way out through prosperity.

Yet what is more pertinently true is that the Government has the power to widen adequately the scope of the system of transferring credits for productive purposes; and that the Treasury as the financial instrument and mouthpiece of the Government is condemning itself by its failure to take action when it says "The remedy is in the hands of the possessors of money."

But this amazing thing follows:

"If they will conserve it, if they will follow a cautious policy ; if they will not inflate credit or over-lend for trade, if they will encourage investors and themselves to meet the public need, then we may avert the peril, and I hope we shall."

Even though the encouragement of business is forgotten within a single paragraph, one might imagine that the public need included not only the balancing of the Budget and the reduction of public debt, but also means to meet the heavy cost of living, in addition to the charges for accommodation which the financial community are able to make for providing the means whereby the economic activities essential to liquidating these obligations may be carried on.

One might imagine, too, that the peril lay in handing over to these possessors of so-called money, the body and soul of the bulk of the nation, to be subjected to the calling in of loans, the inquisition, regulation and limitation of their trade, and the diversion of funds from trade to Government securities, without recourse except to Carey Street from these arbiters of public fate ! Yet this peril the Chancellor actually invites !

The detached, impersonal way in which the Chancellor is ready to bind the nation hand and foot to be disposed of by a comparatively few big financiers is incomprehensible.

Only a statesman of the most callous type (which no one would accuse Mr. Chamberlain of being) could be consciously guilty of so grave a breach of the trust reposed in him by the People.

Perhaps the signalman unduly controlled by circumstance is showing a red light in the hope that the nation may see and understand for itself and act accordingly.

TRAGIC FINANCE!

IS THE BANK RATE 7% OR 24%?

IF a yard were reduced to the equivalent of 9 inches whilst still being called a yard, and if, nevertheless, the price of a yard remained the same, that price, although nominally the same, would actually be four times greater.

In essence the Bank Rate is the price of money, and becomes deceptive when the money standard has been depreciated.

Whatever the cause of our so-called 7 per cent. Bank Rate; whether it is to induce foreign financiers to retain here funds payable in gold (on foreign-held Treasury and other Sterling Bills) which cannot be so met; or to divert funds from trading channels because the "float" required in Treasury finance is now so colossal that Trade must be sacrificed; or that those who control the "corner" in financial machinery, and are able to delude the Treasury, may use the Bank Rate as a means of squeezing out holders of securities, properties and businesses required for rounding up big national and international projects to be equally controlled; and also incidentally to bring recalcitrant labour to heel; whatever it may be, that cause should be publicly defined.

If the nation generally be regarded as the public, secrecy is "not in the public interest."

The Bank Rate cannot do any of these things without accomplishing also more or less of each of the others; nor can it attract gold to this country as a high Bank Rate is supposed to do when gold fetches no more than would buy the same number of dollars as the gold itself would buy in the States, where gold is at a carefully adjusted premium.

Under a sound monetary standard a 7 per cent. Bank Rate means no more than 8 per cent. interest to the Trader; though even that is a serious burden where much trading is based on borrowing.

Now, however, we have a depreciated monetary standard under which the same Bank Rate almost means Suppression of Trade.

This standard, a fluctuating one, is gold at £5 3*s*. 0*d*. per ounce instead of £3 17*s*. 9*d*., showing our Legal Tender to be depreciated by 32 per cent.

To the borrowing trader, manufacturer, etc., the customary 1 per cent. above Bank Rate charged for loans makes his interest 8 per cent.

But, in the gross trading efficiency of what he borrows, this really means 8 per cent. for £100 less £32; i.e., £8 interest for £68, which is not 8 per cent., but nearly 12 per cent.

If the further depreciation of our legal tender in purchasing power due to prices raised by scarcity or shortage of commodities and increased cost of living be taken into account, the net trading efficiency of £100 is reduced to £34, upon which £8 is nearly 24 per cent.

Next, consider the Trader who is an importer of goods from a country where monetary exchange is against us, say the United States. His so-called £100 will represent only 397 present dollars instead of 486 pre-war dollars; and as the present dollar is worth only 42 cents, compared with the 100 cents of the pre-war dollar, his 397 dollars equal in trading efficiency only 16,674 cents against 48,600 cents, or roughly one-third!

Hence 8 per cent. on the nominal amount which this British Trader borrows is 24 per cent. on the true amount!

Such considerations either did or did not affect the decision which fixed the Bank Rate, every 1 per cent. of which meant at least 3 per cent. to this Trader.

In either event, the following inferences may be drawn:

(1) The present Bank Rate should not be maintained unless a compensatory expedient is immediately adopted, an expedient in the form of a credit-right scheme which will infuse liquidity into fixed assets, render static funds dynamic, in transfers from one security to another, without injury to the original borrower; and either minimize any legitimate need for so high a Bank Rate or neutralize its evil effects.

(2) The new Finance Bill should not be forced upon the country unless endorsed by a Committee of Commercial and Industrial Safety, which should be appointed forthwith, with plenary powers to investigate the general principles and special operations of our Financial Policy of the War; in respect of which Committee, Financiers, Financier-Merchants, Bankers and Treasury Officials should be excluded from Membership.

STOP THE WAR BETWEEN FINANCE AND INDUSTRY

IT MENACES THE STATE!

FINANCE is the invisible power, as Commerce and Industry are the *visible* power, in the means whereby the Nation lives its economic life.

There is a silent war ever being waged between them.

The Financial Community periodically manœuvres to make Credit, which is its chief instrument, scarce and dear to the Commercial and Industrial Community. At different times and places for various reasons Financial Policy to this end becomes mere Financial Conspiracy.

The Commercial and Industrial Community requires Credit to be abundant and cheap.

When Credit is made scarce and dear prices tend to fall, but the means to buy fall lower, business failures multiply, industry stagnates, and unemployment spreads.

It is at such times that the Financial Community uses its invisible credit power to acquire control of the fundamental instruments of commerce and industry at forced-sale prices and to that extent causes these contending Communities to overlap.

The cash reserve principle in Banking by its effect on expansion and contraction of Credit, causing corresponding waves of prosperity and depression in trade, has thus been so useful in directing both financial and industrial power into the hands of Financiers that the wish that this movement is a natural law is father to that thought in the most patriotic and least international financial minds.

Nevertheless, the law is artificial, and those who understand this enjoy the power to control the "output of the genial sun or kindly rain" of trade.

This quoted phrase was used by our gifted Lord Chancellor on Sunday, with another application, however.

This power makes the harvest a good one and wheat plentiful to Finance, but it nevertheless makes bread dear to Commerce and Industry.

A further point for the Lord Chancellor to note is that the "Deliberate restriction of output by the worker, known as ca' canny," however foolish it may be, is a natural consequence (delayed until made possible by powerful Unions) of the *deliberate restriction of credit by the financial community as supported by the financial policy of the country.*

Credit is now being abnormally restricted against general Commerce and Industry (as distinct from the special Commerce and Industry which the Financiers themselves promote) by the following methods:

(1) An abnormally High Bank Rate for Paper Money of abnormally low purchasing power.

(2) Deliberate contraction of Credit by the Banks in concerted action.

(3) Confiscation by Taxation of the Credits accumulated in keeping industry going.

These Causes will force "ca' canny" upon Commerce and Industry even more completely than Trade Unions can force it upon Labour.

Far-sighted Finance, through not being far-sighted enough, will find that it has over-reached itself when, as the alternative to something worse, its own section of Commerce and Industry alone must support the whole wage-earning community working upon "ca' canny" principles and Union rates of pay; at a time moreover when the yield from Industry required for service of debt, costs of government and return upon investments is ten times greater than ever before.

It seems futile to remind all concerned that these conditions are mutually destructive and that therefore under such a policy, the "something worse" must happen.

Referring to Clause No. 1:

High Bank Rate never fulfils its legitimate function when Legal Tender falls short of the long-established-mint-par-of-gold standard. That is not only a fact, but it is one of the few facts in finance which *ought to be a fact.*

Referring to Clause No. 2:

Deliberate contraction of Credit by the Banks in concerted action is usurpation of the most powerful influence in the government of the country by a small section of the community operating against the remainder of the population; it is equivalent to the abolition of representative government in favour of unauthorized autocracy. What wonder that Trade Unions arrogate to themselves autocratic powers!

Referring to Clause No. 3:

Confiscation by taxation of the Credits accumulated in keeping industry going, operating in conjunction with Clauses Nos. 1 and 2, is deliberate support of the fatal policy of an international financial community which cares little for this country except as an area to which certain departments of reorganized world-industry are to be allotted.

On the heads of those responsible for these causes will lie the War of Industrial Independence which must inevitably result.

The remedy with which to avert the catastrophe is not wanted because the Financial Community are too blind to see that it is *necessary*, not merely for others, but also for *themselves*.

That remedy is: (1) The restoration of sound Legal Tender by *rapid* methods, and

(2) The vesting of Credit-Right in Instruments of Production for the promotion exclusively of further production limited alone by the necessity for a very real commercial and industrial equilibrium as distinct from a hypothetical financial equilibrium.

"*THE GERMAN GREAT BANKS AND THEIR CONCENTRATION.*"

AS WE ARE ACCEPTING BOTH AT HOME AND ABROAD THE UNDILUTED POLICY OF THE INTERNATIONAL FINANCIERS IT IS UTTERLY INCONSISTENT TO REPUDIATE HUGO STINNES!

(1) ***Because HUGO STINNES IS MERELY A NOMINEE OF INTERNATIONAL FINANCE;***

(2) ***BECAUSE HE IS DOING THE WORK WHICH IS REQUIRED OF HIM.***

HIS sardonic exultation is born of almost assured success of the policy he stands for. The " almost " measures its folly!

The following facts speak for themselves. They are extracted from a translation published by the United States Government, in 1911, of

" THE GERMAN GREAT BANKS AND THEIR CONCENTRATION " in connexion with " THE ECONOMIC DEVELOPMENT OF GERMANY," By Dr. J. RIESSER, *of the University of Berlin*, a book which proves that the power behind Hugo Stinnes controls the entire economic situation of Germany, and world-capital estimated in terms of money at £30,000,000,000!

" Hugo Stinnes had some relations with the Dresdner Bank, having participated with it in the reorganization of the Saar-und Moselle Mining Company. He established relations also with the A. Schaaffhausen'scher Bankverein, after the latter had founded a community of interest with the Mittelrheinische Bank in Koblenz, of which Stinnes was a board member. In 1901 Stinnes established relations also with the Darmstadter Bank, when he became vice-president of the board of the Deutsch-Luxemburgische Bergwerks und Hutten-Aktien-Gesellschaft, which owes its financial strength and high technical standing to the Darmstadter Bank. The concern combined both mining and smelting operations after the acquisition in 1904 of the Stinnes mines, Friedlicher Nachbar.

"On January 1st, 1905, a community of interest was entered into between the Gelsenkirchener Bergwerks-Aktiengesellschaft, the Aachener Huttenverein Rote Erde, and the Thyssen concern Schalker Gruben und Huttenverein. By this step a group of competing banks, viz.: the Disconto-Gesellschaft, the Deutsche Bank, the Dresdner Bank, and the A. Schaaffhausen'scher Bankverein, were brought together in a joint undertaking. This event served also to enhance the power of Hugo Stinnes and August Thyssen, who became members of the 'joint committee' of this community of interests.

"This combination seems to have brought about some sort of equilibrium in the Rhenish-Westphalian industrial territory, and simplified certain complex relationships in the banking and industrial field. On the other hand, there are already evident the beginnings of new conflicts in another field.

"As we saw, the Lorraine-Luxemburg iron industry has in recent times been coming to the front more and more, and is beginning to overshadow even the Rhenish-Westphalian industry. One reason of this development is the far lower cost at which it can produce pig iron as compared with the Rhenish-Westphalian district. Another reason is that, owing to the electrical process recently introduced in the manufacture of steel, the value of Luxemburg-Lorraine ores, which formerly were hard to work, because they were rich in phosphorus, has been greatly enhanced. These can be utilized most cheaply and advantageously by the works located close to the ore beds. The quantity of such ore is estimated at about 2,000,000,000 tons.

"Realizing that a serious movement of the German pig iron industry toward the south-west has set in, the leading captains of industry and the leading banks alike have felt obliged to increase their influence in the Lorraine-Luxemburg region.

"In this territory the position of the firm, Spaeter & Co. in Koblenz, is very powerful. It is the founder of the Rombacher Huttenwerke, which have brought up the Moselhuttenwerke and dominate the blast furnaces in Rodingen, Rumelingen, and the Eisenhuttenaktienverein Dudelingen. In this district Thyssen has thus far gained a foothold practically only through his interest in the Huttenverein Sambre et Moselle, while Stinnes's hold in this territory is only through his membership in the Supervisory board of what is now a very important company—the Deutsch-Luxemburgische Bergwerks und Hutten-Aktiengesellschaft and his rather unimportant connexion with Spaeter & Co. As recently as April, 1909, a step was taken which is certain to affect deeply the relations of the different industrial groups and their relative positions. In all likelihood it will also exert a powerful influence on the relations of the different bank groups which are dependent on these industrial groupings, and on the general movement toward concentration. An enormous increase was made in the capitalization of the Gelsenkirchener Bergwerks Gesellschaft. Its capital stock was increased by 26,000,000 marks to a nominal amount of 156,000,000 marks, and its bonded debt by 20,000,000 marks to 70,000,000 marks. The latter increase was made in spite of the fact that there was still available an unissued amount of 9,825,000 marks in 4 per cent. bonds authorized in 1906.

"*This move attracted attention not only by the size of the capital increase but also because it was made at a time of money stringency and unfavourable market conditions.* The company justified this step on the ground that the additional resources were indispensable for the erection of new blast furnaces and steel works in Esch and in Deutsch-Oth. It was also given out officially that the measure was necessary to ensure an 'adequate position' for the company in case the Steel Works' Union, which terminates June 30th, 1912, were not renewed. Doubtless this had reference to an increase of its quota in the syndicate. The Gelsenkirchener Bergwerksgesellschaft had originally been a producer of coal and coke only. After it had entered into a community of interest with the Rote Erde and the Schalke Works it became also a producer of pig iron, steel, semi-manufactures of iron and steel, beams and rails, but it nevertheless continued to hold the largest production quota in the coal syndicate. Through its action of April, 1909, however, it entirely shifted its centre of gravity away from the production of coal to that of iron and steel.

"This step was in keeping with the movement of the iron industry to the south-west. The new resources were to be expended for the purpose of operating its steel and rolling mills in combination with its blast furnaces, where conditions made possible the cheapest cost of production, i.e., in the heart of the Lorraine-Luxemburg Minette district, where it owned extensive ore beds.

"Through this action, however, the Gelsenkirchener Bergwerksgesellschaft became a direct competitor of August Thyssen, who had been a member of its board. He at once accepted the logical consequence of the situation and resigned from the board. Earlier he had withdrawn also from the board of the Phœnix. The Thyssen concern Deutscher

Kaiser owns very important ore rights in the Lorraine-Luxemburg district, and he himself, as was shown above, is interested in the Saar-und Moselbergwerksgesellschaft in Karlingen. Moreover, early in 1909 he invested several million marks in land in this section and acquired the patent rights to produce electro-steel in all his works.

"In the near future, the struggle for supremacy is likely to be fought out in the Lorraine-Luxemburg district. The trial of strength between the leading interests will come as soon as negotiations begin with a view to renewing the Steel Works' Union at the expiration of the present agreement.

"The progress of the conflict and its outcome, and the industrial concentration that is likely to precede or follow it, will undoubtedly be influenced by the banks and groups of banks that stand back of the captains of industry and their enterprises.

"So far as we can foresee, the important part will be taken by those banks which now possess, or by that time will have attained, a controlling influence over the industrial concerns which dominate the Lorraine-Luxemburg district. It will be of the utmost interest to watch further developments. These will reveal many different combinations and changes in industrial and banking concentration and new group alignments in both fields."

HUGO STINNES AND AUGUST THYSSEN:

"While Stinnes is closely allied with Thyssen" (as is evident from pages 741/2 of the same publication) "and owns jointly with him the Mulheimer and the Sambre et Moselle mining companies, he owns also in his own right the coal mines Mathias Stinnes, Victoria Mathias, Graf Beust, Carolus Magnus, Friedrich, and Ernestine. He owned also the Friedlicher Nachbarmine (transferred in 1904 to the Deutsch-Luxemburgische Bergwerks-und-Huttenaktiengesellschaft). In the southern part of the Ruhr district he is almost in sole control; in the rest of this territory he shares control with Thyssen. Stinnes likewise joined the Supervisory board of the Gelsenkirchener Bergwerksgesellschaft. In addition he is on the board of the Nordstern and of the Mittelrheinische Bank in Koblenz and Duisburg. The latter is closely related to Spaeter & Co. in Koblenz.

" The supremacy of Thyssen and Stinnes in the Ruhr district is disputed in the main only by the Haniel family and by Karl Funke of Essen."

THE BANKS AND MINING:

" More and more it is becoming clear, in all essentials, that the fate of the mining and metallurgical industries as a whole will be decided not in Upper Silesia or on the Saar, but in the two districts in which primarily the great banks are contending for financial control—the Rhenish-Westphalian and the Lorraine-Luxemburg districts. Between the latter and the former there are close connexions. Largely through the help of the banks the Lorraine-Luxemburg district has recently attained a position of more dominating importance, its extensive ownership of mines in the Ruhr section giving it large influence also in the Rhenish-Westphalian territory."

THE RUSSIA THAT IS RISING FROM A PAPER MONEY DÉBÂCLE

BEFORE Lenin, Legal Tender Currency in Russia became so depreciated that prices quoted in it rose to dizzy heights; so high that buyers could not buy, and sellers could not sell. Industry collapsed. Business ceased.

Millions of men, women and children became destitute; boots, clothes and food became priceless.

The nation was threatened with nakedness and starvation; individuals sank in the streets exhausted, and died where they fell.

That opened the way for a Dictator to save a people distraught.

Along that pathway Lenin came!

He called for volunteers to save Russia.

He bought with money from his printing press food and equipment for his soldiers.

He discredited other moneys. His money alone he made Legal Tender; whereby he made it *comparatively* scarce and valuable.

He paid his soldiers with this new money, and fed and clothed them.

The Naked and the Hungry flocked to his Army.

The rest of the people found it profitable, safe and patriotic to work unceasingly on army service and supplies.

And NOW?

100,000,000 PEOPLE ARE BEING WROUGHT INTO A FIGHTING MACHINE!

100,000,000 PEOPLE ARE BEING ORGANIZED: NOT FOR INDUSTRY—NOT FOR COMMERCE—NOT FOR PEACE—NOT FOR ANY OF THESE THINGS—BUT FOR FIGHTING ALONE!

Necessity compels it!

The same kind of economic necessity, likewise caused by an inversion of sound monetary principles, drove the *Great* Napoleon, who was capable of so much high-mindedness and generosity, to "brave alike the sun of Egypt and the snows of Russia; bound by no treaties; regardless alike of private honour and public faith; prodigal at once of the blood of his people and the property of his enemies; indifferent equally to the execrations of other nations and the exhaustion of his own."

THEREFORE, ALSO, LENIN, COULD HE STOP FIGHTING, DARE NOT!

No industries in Russia can now be maintained EXCEPT TO SUPPORT AN ARMY; and the Army must be VAST ENOUGH TO REQUIRE THE SERVICES OF THE WHOLE ADULT CIVILIAN POPULATION!

That Army may become mighty enough to terrorize all Europe, Asia, and Northern Africa. It must ever be on active service—capturing, controlling, destroying! It can rest only where and while its new money, after superseding repudiated moneys, remains effective! Its end can come only by military exhaustion, with PERHAPS a government forced upon Russia by the rest of the world.

BUT THE FEW TROOPS THAT NAPOLEON BUONAPARTE COULD MUSTER NEARLY SUBJUGATED EUROPE!

Those troops were fighters in the Russian sense of to-day. They fought to live, and could not live if they did not fight.

WHAT, THEN, MAY NOT RUSSIA DO?

Before it collapses it may wreck the Eastern Hemisphere! Not Bolshevism, but this necessity will be its motive force in spreading the false Lenin Doctrines!

Peace for France in Napoleon's Day meant Industrial Paralysis and Starvation.

PEACE FOR RUSSIA IN LENIN'S DAY MEANS THE SAME! WHY? BECAUSE THE TRADING PROPOSALS OF A HANDFUL OF FINANCIERS ARE MERE MOCKERY OF DESPERATE MILLIONS OF HER PEOPLE—UNLESS FREEDOM IN FINANCE IS GRANTED ALSO.

Russia will have to be fought in another world-war UNLESS BY EXAMPLE IT IS SHOWN THE BETTER WAY!

THE BRITISH EMPIRE COULD, BY EXAMPLE, SHOW RUSSIA THIS BETTER WAY.

If the British Government would endow British Productive Properties with a right to practically free Credit, based on the properties to half their gold value, that Credit to be used wholly to create FURTHER Productive Properties or to relieve existing Productive Properties of First CHARGES, they would SHOW RUSSIA HOW TO PRODUCE PEACEFULLY ABUNDANCE OF COMMODITIES AND CREDIT WITH SCARCITY OF UNEMPLOYMENT, INSTEAD OF SCARCITY OF COMMODITIES AND CREDIT WITH ABUNDANCE OF UNEMPLOYMENT!

The British Empire has the power thus to endow productive properties as a consequence of its Cheque and Banking System.

So soon as Russia saw the miracle of prosperity that could thus be wrought, its Army would be turned upon itself to teach the Russian people how to use cheques, to establish the necessary Banking, to utilize such Credit, and to live contentedly and peacefully at home.

That Army would not then be used far and wide, as it otherwise must be, treaties or no treaties, to spread Bolshevism with Fire and Sword!

STATESMEN of all Parties and of No Party!—FINANCIERS who control existing methods of creating and distributing Credit! Whether it please you or not, circumstances have made that simple principle of credit essential to the survival of modern civilization. "Be just and fear not." Be otherwise and tremble, not merely for the Empire at large, but for your own hearthstone!

FORSAKEN BY AMERICA

MENACED BY 200,000,000 *RUSSIANS DEPENDENT ON GERMANY*
WARRED ON BY OUR GOVERNMENT

HAVE WE LOST THE GREAT WAR?
IS THE NATION BEING DRIVEN " DOWN AND OUT " ?
IS THE BRITISH EMPIRE DOOMED?

AMERICA—not the American People, but merely the mentors of their Government Executives—forsook us when she forced the Armistice upon us.

Admiral Sims truthfully declared that though America entered the war in April, 1917, she was of little help to the Allies until ten months later.

The real help came with the thoroughgoing financial blockade contained in THE EXECUTIVE ORDER OF THE PRESIDENT, DATED JANUARY 26, 1918, which began to operate early in February; which startled Germany into the desperate attacks of March " when the German armies were sweeping in a victorious tide over France, threatening at once Amiens and Paris "; and which produced the internal collapse of the enemy, beginning with Bulgaria in September, and ending with Germany in November!

That Blockade, if continued, would have enabled the Allies to march victoriously upon Berlin with little or no further loss of life, hailed as saviours of a starving people

—but America substituted the Armistice! Succeeding events compel the inference that THE FINANCIAL BLOCKADE WAS APPLIED NOT TO HELP THE ALLIES BUT TO PREVENT SUCH A VICTORY BY GERMANY AS WOULD HAVE PLACED THE AMERICAN SECTION OF INTERNATIONAL FINANCE UNDER THE GERMAN SECTION.

Thus did America forsake us!

200,000,000 RUSSIANS MENACE US!

If peace with Poland be signed by the Bolshevik Government this will be done in order that Russia may attack India, and elsewhere, with overwhelming armies. War and Conquest are the only Industries open to Russia. As the Assignats caused the failure of the French Revolution (although no revolution is practicable without Assignats or their like) and prepared the situation for a Napoleon who could employ the people by making war; so the paper money which PROVOKED the Russian Revolution also DESTROYED it, and prepared the situation for a Lenin, who, with tens of millions of soldiers, compared with Napoleon's hundreds of thousands, may destroy modern civilization more completely than the Barbarians destroyed that of the Romans.

If peace with Poland be not signed the Russians may overrun Europe.

We could show Lenin how to save Russia and himself without war and conquest; but the same people that checkmated our Financial Blockade in 1916 by means of our own Treasury Bills in the hands of so-called Neutrals, and that stopped the American Financial Blockade too soon, again stop the way. Hence, if peace be not signed with Poland, we, instead of being in Germany directing resistance to Russia, or instead of having shown Russia the needlessness of her warlike enterprise, shall be forced to seek the aid of Germany, as Mr. Churchill has already done. In other words, we have been made DEPENDENT ON GERMANY'S BECOMING ONCE AGAIN powerful, rich, resourceful, defiant; not poor, disarmed, defenceless! Whilst

UPON *US* EVEN OUR OWN GOVERNMENT MAKES WAR!

It does so when it impoverishes the people by means of restricted credit, amazing taxation, high cost of money of small purchasing power, etc. It does so by making it almost a crime for a British subject to make profits. The Government forgets and the Smillies never knew that WAR UPON PROFITS IS A DESTRUCTIVE WAR UPON THE NATION ITSELF, BECAUSE PROFITS IN PRINCIPLE ARE NO MORE THAN WAGES, AND WAGES ARE THE NATION'S MEANS OF LIVELIHOOD.

The impoverishment of the British subject will neither impoverish nor impede the section of International Financiers which checkmated our Financial Blockade and stopped the American Financial Blockade too soon! Rather will it make these men more viciously powerful, more completely dominant over orderly peoples and pliable governments than ever. THEIR international meat is OUR national poison. So much so that soon it may be said of the Heart of the British Empire, as David Lloyd George said of the Earth:

"This torn and bleeding earth is calling to-day for the help of the America of Abraham Lincoln."

Those are the words of our great Premier. But are they strictly true? Was not the America of Abraham Lincoln "torn and bleeding," too? Was it not the POLICY of Abraham Lincoln that made it whole?

Is it not the POLICY—not the country nor yet the man—that the British Empire needs to-day?

We have THE MAN in DAVID LLOYD GEORGE HIMSELF! But not the Policy.

That Policy consisted of UNITY AND EMANCIPATION.

The method of applying it was bloody but successful. THE UNITY OF THE BRITISH EMPIRE—REAL UNITY—AND THE EMANCIPATION OF BRITISH SLAVES may be achieved by a comparatively bloodless method—a method which could regenerate Russia or any other stricken country capable of civilized pursuits.

It is said by a few thousands of well-placed but short-sighted and narrow-minded people, that the war has opened out wonderful prospects for the British Empire. These people ought no more to be listened to than the 600,000 Leninites who, whilst they predict the wonderful prospects of Russia, rule and exploit without mercy 200,000,000 Russians. Just as the wonderful prospects of the 200,000,000 Russians consist of Industrial Slavery for the Civilians until military exhaustion overtakes the TROOPS and the 600,000 Leninites go down in a frenzy of savagery and revenge; so the wonderful prospects seen for the British Empire, pre-suppose Industrial Slavery under intolerable conditions for the real wage-earning workers, both EMPLOYERS AND EMPLOYED. Those intolerable conditions are foreshadowed by the normal-year service of debt of £365,000,000 (amongst other charges) announced in a recent White Paper by the Chancellor of the Exchequer.

These figures contemplate such a charge annually for about 50 years. That means £18,250,000,000. To this, however, must be added the effect of the reinvestment of at least £100,000,000 of that annual charge each year for producing an income of at least 5 p.c.; these investment funds not being needed for consumption purposes. But as £1 per annum invested at compound interest at the rate of 5 p.c. produces in 50 years £209, one hundred million pounds per annum in 50 years would have to produce £20,900,000,000: so that in 50 years the producers of the country are expected to provide IN ADDITION TO CURRENT NEEDS AND UNDER CONDITIONS WHICH MAKE PROFITS ALMOST

A CRIME the impossible total of £39,150,000,000; although they must also provide the further £700,000,000 per annum to be Budgeted for and the charge upon industry made by every £1 per annum of investment funds invested during, say, only, the past century, for every £1 of which industry has had to create £2,610; most of it, moreover, for further investment in INDUSTRIES, EITHER AT HOME OR ABROAD, UNDULY LIMITED BY THE IDEAS, PREJUDICES AND FAVOURITISMS OF REMARKABLY FEW MEN.

Those who expect such impossibilities are inviting their own downfall even more surely than the 600,000 Bolsheviki are inviting theirs.

For remedying the evil it is as great a folly on our part to make levies upon capital, confiscate war profits, add profits to the criminal code, repudiate debt and impoverish individuals by taxation, as it is on the part of Bolshevists to try to reconstruct civilization on foundations of robbery and murder.

A simple modification of the existing Capitalist System in relation to redeemable credit is the true and only remedy:

Emancipate the British slaves by granting practically-free Credit-right, guaranteed by the whole nation, to individual producers, in respect of their productive property, for the purposes of creating further productive properties and relieving existing ones of burdensome charges; do this under conditions which will increase the demand for, and the value of, wage-earners; who, in due course, will thus acquire the means to qualify as producers for the same Credit-right on their own account, in circumstances which will remove their prejudice against machines as taking the place of men and women in the multiplication of productive power.

The vast sums in interest which Production (enormously multiplied and varied) would thus be saved, would enable all its obligations to be met willingly and prosperously; whilst freedom more glorious and lasting than Lincoln gave to the black slave would reach the pallid slaves, both employers and employed, in offices, factories, shops, works, town dwellings, and countryside. Throughout the British Empire the Bond of British Credit granted to every Producer as a legal right, the Bond of All for the benefit of Each, would weave a golden thread of Union more binding and permanent than bonds of steel.

DAVID LLOYD GEORGE,

British Prime Minister at the gravest crisis in British history!
The Mantle of Abraham Lincoln has fallen upon YOU!

By the example which it is in your power to promote, by the imperial and material power which the exemplars combined would rapidly acquire, you, and you alone of mortal men to-day, can save "the torn and bleeding earth."

THE CRISIS!

"*A LITTLE CHILD SHALL LEAD THEM*"

THE *Children's Newspaper*, of August 7, 1920, says:

> "A syndicate of British business men has acquired 80 per cent. of the maritime rights of the river Danube, but the grown-up papers have not done more than make this announcement."

Doubtless the disingenuous grown-up papers knew better than to say more. For itself *The Children's Newspaper* concludes that because a Scotsman and a few Associates in International Finance have

> "not only acquired ships and maritime rights, but shipbuilding yards, coal mines, piers, wharves, warehouses, stations and barges, the barges alone representing £20,000,000":

that, therefore,

> "GREAT BRITAIN controls the economic life of Central Europe, GREAT BRITAIN has become the master-builder of Central Europe's ruined civilization, GREAT BRITAIN can assure the peace of the world!"

But Great Britain is not yet merely a Scotsman's Syndicate! What does this mean? Listen! Whilst a paper standard of value, a high Bank rate for depreciated money, amazing taxation which either confiscates or prevents (except for high finance) business profits, and an avowed banking policy of credit contraction, combine to restrict the resources of British Industry and foster unemployment, a favoured Scotsman is able to raise untold millions in credit for controlling the Danube—alive to the fact that

> "the controllers of great rivers have in their hands a mighty power";

aware that "what Central Europe required was work"; knowing "how to get raw materials into Central Europe"; "how to provide the manufacturers of all those ruined countries with capital; how to get the populations of those States back to the self-respect of self-supporting labour"—for High Finance!

Observe! Credit is being diverted to establish manufacturing concerns elsewhere against the interests of *our people*, whilst manufacturers here are being forced out of business by restriction of credit, spending power, production and employment, added to high costs of materials caused by our adherence to legal tender of an inferior monetary standard!

It is taking the name of Great Britain in vain to say that Great Britain is doing this!

It is like saying that ten men shall have £1,000,000 between them, or an average of £100,000 per head, when one man alone is given the £1,000,000 and the other nine are made into paupers.

What is the Truth?

The Truth of such schemes is that International Finance is against us as a People in the regeneration of "the torn and bleeding earth."

It is a great thing to help, a human thing to profit by, the "wreckage of the Danube," but International Finance would do it by making wreckage of us.

That International Finance is against us has produced our Crisis.

It causes Germans to *flout* the British Premier, Official France to *embarrass* him, American Executives to *checkmate* him!

Why? Because he is wise enough to temper his keenness to fight Soviet Russia—Soviet Russia struck a blow—a dishonest one—at International Finance in repudiating foreign debt: it mattered little that the power of Russia to pay had already been broken by the pre-Lenin Revolution.

The International Financiers want Russia, first to agree to pay, next, to be able to pay, and eventually to pay!

They know that Soviet Russia can never pay, so they are ready to sacrifice millions of lives, other than their own, to crush Soviet Russia! The French International Financiers, the German, the American, and—most potent of all politically—the German-American International Financiers are all ready to crush Soviet Russia in the same way.

The British Premier, who knows that all debts should be paid, who knows, too, that Soviet Russia can never pay, must also know that it is not necessary to sacrifice millions of lives to procure payment, because Soviet Russia will ultimately destroy itself by economic exhaustion resulting from monetary disease, and its Government will go down in an upheaval of the Russian People, who will then, if helped, be both willing and able to pay.

Soviet Russia must fight for life, a great, inevitable, but abortive fight.

In the beginning Germany may be neutral or otherwise. Ultimately, Germany must be resuscitated into a great fighting Power that it may not be submerged.

Soviet Russia thus, either directly or indirectly, will tear up the Treaty of Versailles and dig the grave of France, Belgium, and Holland.

The European Continent will be dominated partly by Germany and partly by Russia, as the opposing forces of organized High Finance on the one hand and Desperate Economic Chaos on the other, until a collapsed Russia gives way to Germany alone or appeals to whom?

WILL THE BRITISH PREMIER ELECT TO-DAY TO STAND ALONE?—setting free financially and thus uniting imperially a great Empire solidly behind him?

Will the British Empire *at long last* be permitted, by means of credit-right for productive purposes, to develop, unfettered and unrestrained by the specialized schemes of International Finance?

If Germany will not save Poland, Germany will save herself. She will not join Soviet Russia whilst German and German-American International Financiers control her. Should they lose control, Germany will join Russia and extinguish both them and Poland too in a colossal Soviet State which will ultimately, whatever damage it may do meanwhile, produce its own economic undoing, as surely as Soviet Russia left alone must do.

Meanwhile, thrown over by France, may Great Britain accept the situation and be no more an overwhelming military power, but instead be warned by the example of once-powerful but now helpless Holland! May she become by far the greatest Sea and Air Power! May every man in her fighting services be rendered a host in himself as director of a fighting machine or machinery! May she so defend her frontiers that the British Empire shall become impregnable from without; whilst within, upon her 12,000,000 square miles of territory, may there develop, under a sound monetary standard and Credit-right, a thriving, peaceful, populous, united, and unconquerable People!

OUR LEGAL TENDER LAPSE

is the primary cause of our National Unrest, and persistence in it prevents the remedy for the secondary cause—the cost of the War and its aftermath

JOHN Locke (A.D. 1632–1704), financial expert and philosopher, author of the essay "On the Human Understanding," was one of the original Directors of the Bank of England. The Bank of England still survives, and John Locke's philosophical writings are immortal!

John Law (A.D. 1671–1729), financial expert and superficial thinker, devised Currency Notes, which ruined nations in his time, and now threaten to ruin more.

Of these two men our Treasury prefers John Law. It is difficult to conceive why, unless one assumes that it is out of (surely not more than) verbal compliment to Bonar Law.

John Law said in effect that Sound Legal Tender may consist of Paper, based on Government Paper or chunks of indivisible property. John Locke proved that it may not. He proved that sound Legal Tender cannot go outside itself for value, but must itself embody both standard value and security therefor.

Because an abuse of this principle may pass muster in a comparatively small way, or in a larger way if the steps are rapidly retraced, our Treasury is likely to place us amongst the human debris attributable to Law. Some of the consequences are besetting us now.

Unemployment of ex-soldiers, dockers, and others; ever-rising cost of living; adverse rates of exchange; decreasing supplies; either higher prices or subsidies for bread, coal, shipping, and travel; the rebellious spirit and social unrest amongst millions of the people: these are effects of great prices having to be paid for small values received, because the prices are measured in Legal Tender based on unsuitable Securities instead of Gold.

Whatever is Legal Tender in a nation is the national standard of value. All standards of value are elusive things at best.

But the fundamental standard of value, especially of Legal Tenders themselves, should be as little elusive as possible.

Securities and most Commodities fail because they are relatively too variable in nature and deficient in necessary qualities, involving that constant uncertainty which promotes chaos in trading.

Gold rose to the top in the efforts of ages to find a standard having the necessary qualities whilst steady enough to stabilize trading relations and aims. Hence is the truth derived that

Legal Tender not based on gold, or to the extent that it is not based on gold, lacks the qualities which produce stability in the economic condition of a country and possesses those qualities which lead to economic chaos.

The Treasury objects to reversion to the gold standard in a way which admits that the effects that this reversion would produce would include a substantial reduction in the prices of commodities in general.

The objection is that the National Debt must be repaid whilst prices are high, i.e., whilst the purchasing power of money is low, in order that the Debt may not be redeemed with funds of greater value than those in which it was incurred (*vide* Mr. Stanley Baldwin in the House of Commons). Even if all should go well with the impossible Treasury Scheme, it would take fifty years to redeem the Debt.

If all should go well with the scheme of the Treasury for reversion to the gold standard that would take fifty years too.

When Alexander Hamilton (A.D. 1757–1804), for George Washington, in the day of the paper money called "Shin Plasters," found it prudent to make good the Government obligations and to pay interest on arrears, he paid at the rate of the gold value (not the paper-money or nominal value) of the currency when and in which the obligations had been incurred. On National Finance this had the effect of a Capital Levy. But he protected the Creditors from ultimate loss. He devised numerous alternative methods of payment from which the Creditor might make his whole choice of one, or part choice of several, with the effect that the development of the United States was promoted by a great and new diffusion of interests. This development was assured because the interests made it both practicable and tempting to all who wished to regain their nominal loss on the Debt and to make much more.

This method of redeeming National Debt below par without ultimate loss to creditors might have been available to us by arrangement with the various Governments within the British Empire, because the British Empire is not relatively more developed now than the United States in Hamilton's time; but the method is denied to us through our Treasury having prevented disclosure of the true price of gold in a constantly depreciating Legal Tender paper currency, in an utterly futile war-time effort to disguise depreciation.

In our case the Debt, to be paid at all (as wisely and honourably it must), must be paid with funds of greater value than those in which it was borrowed. That is the consequence, mainly, of the monetary policy adopted throughout the war, when no artifice to avoid depreciation of the monetary standard was resorted to, and nearly every artifice to produce depreciation was adopted.

The alternative to repayment in funds of greater value would make the country impossible to live in.

That alternative implies the fostering of Low Purchasing Power in money (i.e., high prices), as a deliberate depreciated-legal-tender policy. But such a policy must create an insatiable demand for more and more of the money that is of so little value for purposes of livelihood. The more of such money that is claimed and exacted, the lower its purchasing power must become: until business men despair, and wage-earners by the million grow frantic, in fruitless efforts to obtain enough in revenue and wages to meet legitimate needs.

It should be needless to say that such a policy is an incitement to revolution.

Revolution can never mean more in this country than that large sections of the community, driven desperate by misapprehension of their needs by conventional institutions, accept the offices of revolutionary fanatics to tear the seemingly insensate institutions down.

That type of revolution is preceded by internecine strife amongst the people generally; in which employers fight for enough funds to maintain industry and wage-earners fight to live. The spirit of the coming struggle is shown when one side invites the other to "do its damnedest."

ADVERSE EXCHANGES—In the war-time efforts to disguise the depreciation by ourselves of our Legal Tender in our monetary policy, Sterling Bills and Cables of Exchange were said to fall in value with the rise in the adverse balance of trade, and vice versa.

That this is not the true cause was proved when countries which were debarred by the war from receiving supplies from America nevertheless had an adverse rate of exchange in Dollars.

Further proof that this is not the true cause is being furnished to-day, when the balance of trade is improving between this country and the United States, but the rate of exchange shows no improvement.

To-day the rate is clearly being affected not by the balance of trade but by the amount of credit permitted to be available by the Federal Reserve Board. And it is as easy to decree the rate of paper-controlled exchange as to limit the credit either for exchange purposes or general purposes. Their defenders justify them by claiming that Bills and Cables are a commodity which, like all commodities, rise in price when they are scarce and fall in price when they are abundant.

Even if this were true, it would imply further that they are subject to that rigging of the market which at times besets all commodities, and which in this case would be easier than in any other, owing to the effectiveness of the control of the market. But these Bills and Cables are not commodities. They run counter to commodities.

If all the things which may be bought and sold in international trade be given the generic name Commodities, all the real commodities, gold, wheat, oil, cotton and so forth, might be enumerated as different species of this genus. When all had been classified, still another species, countering all the others, would be required, to round off the genus, in the form of these Bills and Cables. But none of the other species would have the same relation to all the rest that this one would have.

The truth is that such a counter-species consists merely of symbols of the other species. To treat its constituents as commodities in a sale would be to sell the same commodities twice in once, which cannot be done; a maker cannot possibly obtain £300 for £100 of his goods by selling the goods for £100, the invoice for another £100 and the Bill of Exchange for a third £100. Not being commodities Bills of Exchange do not respond to the laws of commodities. But being claims to a specific commodity, viz., Legal Tender, the particular Legal Tender to which they have reference must respond to *price according to quality, which is a rule of commodities*; and the Legal Tender always does thus respond: in an adverse rate of exchange when its quality is bad, and a favourable rate when its quality is good.

If the Legal Tender money is not gold money, but paper money not fully covered by gold, the claims to it will not fetch gold par, but as much less than gold par as the market price of gold in that paper money shows this Legal Tender to be below gold par, i.e., below the gold standard.

That accounts for the largest part of the difference in the Exchange on New York whereby we get Dollars only equivalent to £3 17*s*. 9*d*. for every £5 14*s*. 0*d*.

Until the Treasury rectifies our Legal Tender currency, our Government has thus little or no control over our cost of living.

Far greater power over it than our Government possesses is left, until then, in the hands of the Federal Reserve Board of the United States. Whether the serious financial crisis which threatens the United States should develop or not, this situation if allowed to continue must cost us dear.

The method of rapid reversion to the gold standard is part of my scheme of credit-right. The method it is futile to criticize, because it is the *only* method where *a* method is *imperative*.

This scheme, which I have long advocated in anticipation of this crisis, a scheme which would enable the community to bear the weight of the National Debt and save from bankruptcy many who would otherwise be ruined by a fall in prices, cannot be applied without reversion to sound Legal

Tender currency with its consequences of desirably lower prices and cost of living, because the credit, which is not Legal Tender, and therefore need not be based on gold itself, must nevertheless not only be estimated at and based on gold values, but be used solely to create new, or unburden old, properties productive of gold-values.

STRIKES, LOCK-OUTS, AND FINANCIAL CONCENTRATION

THESE are the three great Prizes of up-to-date Political Economy.

The workers swear by Strikes. The Right to Strike is the brightest Jewel in their Crown!

The Magnum Opus of the Employer is the Lock-out!

The Idol of the Government is Financial Concentration. With them, Financial Monopoly talks.

But have these prizes any ultimate value?

"Value?" Laughter holds its shaking sides at the mention of the word!

The most conflicting ideas of value prevail.

When the value of money is high, interest is high! That is the state of things to-day.

When the value of money is low, prices are high! That also is the state of things to-day.

High and Low! If Ministers and the Nation generally are content to believe that all can be well with economic policy, in face of such flat contradiction, then we are on the verge of further proof that "those whom the gods wish to destroy they first make mad."

Judged by the qualities which distinguish a true standard of value,

FINANCIAL CONCENTRATION, supposed to have high value—as in fact it has for a time to a few—has an ultimate value of less or worse than nil.

(1) Because no such situation can endure; its culmination brings its downfall.

(2) Because the process of centralization of this world-power, as the multitudes begin to comprehend it, either by force of circumstances or by education, must raise such armies against it everywhere as will by repudiation and otherwise destroy the Credit System of the universe and lay waste all the populous centres of the civilized world.

(3) Because the number of industries encouraged by it are too few to employ wage-earners at competitive wages, and this deliberate limitation of industry in order to keep up a large market of cheap labour reduces production, both in kind and quantity, below the standard necessary to maintain in comfort the growing populations of the world.

(4) Because the concentration of financial power in fewer and fewer hands as populations grow larger and more enlightened jeopardizes the whole capitalistic structure, the right use of which is essential to modern civilization, but the abuse of which by checking the distribution of the right to credit, although continually increasing the credit total, has reached the breaking point.

(5) Because the power of finance to transfer industry from one country to another is being caught up rapidly by rapid diffusion of the principle of solidarity and co-operation amongst unions of enlightened wage-earners throughout the world.

(6) Because finance being the only efficient machinery by which general prosperity can be achieved, it can no more be permanently cornered, by a few magnates holding the rest of the world to ransom, than can air and light

(7) Because no small number of men can for long hold unchallenged the master-key to the fate of millions upon millions of their fellow-men.

(8) Because the productiveness of the earth is inexhaustible, but is being held in check by the policy of financial concentration.

(9) Because the wider diffusion of financial freedom is the Open Sesame to abundance of commodities for all.

(10) Because the policy of concentration of financial power is absolutely restrictive and largely destructive, whilst the diffusion of financial power is only relatively restrictive and may be wholly productive.

LOCK-OUTS have little National value—

(1) Because Lock-outs are merely strikes of Employers.

(2) Because a general Lock-out is equivalent to a general strike and equally suicidal.

(3) Because the gain of holding up production by means of Lock-outs is lost in subsequent mal-adjustments, decreased effective demand and means to consume.

(4) Because the Nation suffers when Employers lock out Workers and either transfer industry or abandon it.

(5) Because Lock-outs are only efficient as industrial warfare when industrial peace is essential to industrial prosperity.

(6) Because Lock-outs shut down institutions which ought to be profit-earning and tax-paying; and in a community properly organized economically always are.*

(7) Because Lock-outs devised to lower wages by swelling the ranks of the unemployed in times of high prices, which no lock-out can reduce, tend to serious social disorder.

STRIKES have no value—

(1) Because they are self-destructive, i.e., strikers abandon their own means of subsistence and must either starve to death, find other employment, or give in.

(2) Because the further strikes are extended, and the more strikers that are involved, the more are the means of subsistence that are abandoned, the more numerous will be the strikers that will starve and the less chance will there be to find other employment; unless armies of strikers commit wholesale blacklegging and thus end the strikes by merely exchanging employment.

(3) Because Strikes put an end to the production which supports not only the strikers but the community of which the strikers form a part and thus occasion organic disease in the body-politic to which the strikers belong, akin to that of heart, stomach or lungs ceasing to function in a human body.

(4) Because Strikes cause the most efficient workers to emigrate rather than blackleg, leaving the less efficient behind, reducing working-force efficiency and productiveness, and lowering the rate of remuneration which the industry affected can ultimately pay.

(5) Because Strikes tend to foster the growth of industry elsewhere at the expense of industry in the strike area, and so to reduce the demand for the services of the strikers.

(6) Because the only efficiency which strikers possess in a National sense is efficiency to destroy.

(7) Because Strikes are an aid to the demoralization of domestic life and the promotion of domestic misery, whilst they never bring higher wages than could have been obtained without strikes.

(8) Because Strikes are the open door to riot and disorder and their anti-social consequences.

(9) Because Strikes of any magnitude derange every walk of National life.

(10) Because the greater the strike the greater the ruin.

(11) Because Strikes involve no more brain power than the kick of a mule.

(12) Because the essential principle of the strike is that of the dog in the manger.

(13) Because Strikes are a colossal wastage of labour at a colossal monetary loss to labour itself and very material loss to the community.

(14) Because Strikes are quite incapable of maintaining themselves, although a high degree of self-maintenance is one of the essential qualities of real value.

Those three prizes: Strikes, Lock-outs, and Financial Concentration, are thus a delusion and a snare, urging us on to disaster; but (1) Sound Legal Tender as a true standard of value! (2) Productive Credit-right! (3) Encouragement of Production, not merely production in the sense of more coal-getting or brick-laying by individual wage-earners, but Production of all kinds by nation-wide private enterprise to the limits of economic equilibrium! These three would save us!

They would reduce the cost of living.

They would increase the supplies necessary for Home Consumption and for both Home and Foreign trade.

They would create that legitimate competition for the services of wage-earners by which alone wage-earners will ever come into their own.

They would multiply business in quantity and power to an extent which would make the load of National debt and the return upon investments an easy burden.

They could be forced through the Ballot Box, for wage-earners are numerous enough.

Neither Financial Concentration, Lock-outs nor Strikes will lower prices or increase supplies or raise real wages.

Such sinister policies create two destructive armies!

On the one hand, the Inner Ring of High Finance directing and controlling the strategical use of Money and Credit —the greatest force extant whilst contracts remain good;

On the other hand, a few Leaders of Labour and of general Wage-Earners who direct and control strategically the mass-service of the people.

The Leaders of Finance misdirect their force to concentrate all power into their own hands.

The Leaders of Wage-Earners also misdirect their force with the like object of concentrating all power into THEIR own hands.

The vaulting ambitions of neither can succeed; the obligations involved forbid!

The outcome can only be either Kaiserism or Bolshevism (which is merely chaotic Kaiserism) or Chaos itself.

NOTES ON ALTERNATIVE TAXATION AND CONDITIONS

TO THOSE INVOLVED IN THE LAST BUDGET!

IF THE LAST BUDGET HAD BEEN RECONSTRUCTED ON THE LINES OF THESE NOTES PREPARED AT THE TIME (1) THERE WOULD HAVE BEEN NO UNEMPLOYMENT AT THE PRESENT TIME, AND COMING UNEMPLOYMENT WOULD HAVE BEEN AVOIDED, BECAUSE THE DEMAND FOR SO MANY KINDS OF WAGE-EARNERS WOULD HAVE BEEN SO INSISTENT; AND (2) THERE WOULD HAVE BEEN NO COAL STRIKE BECAUSE THEIR PRESENT WAGES WOULD HAVE BEEN WORTH 28 PER CENT. MORE TO THE MINERS THAN THEY ARE WORTH NOW. Bad Finance is making Economic Conditions intolerable, and thereby placing power in the hands of Extremists on both sides of the Industrial War.

The Treasury requires Revenue on a great scale with which to meet corresponding estimates of expenditure.

As provided for in the present Budget, the Revenue will suffer through the Law of Diminishing Returns whereby excessive Taxation of Production, and of Incentive to Production, defeat its own ends.

Moreover, through scarcity, higher costs, and further obligations, the Estimates are certain to be exceeded.

If the present Budget is to be persisted in these tendencies must be counteracted by special conditions.

These conditions would be created if the Gold Monetary Standard were restored and Credit-right established.

A. THE GOLD MONETÁRY STANDARD would

(1) lower prices to the gold basis; the fall may be gauged by the present market price of gold at £5 3*s*. 0*d*. per ounce (now £5 17*s*. 0*d*.) and the mint price of £3 17*s*. 9*d*.; not only gold, but all commodities, would fall in price in this ratio;

(2) reduce the costs of government and so tend to prevent the estimates from being exceeded;

(3) reduce the cost of living and tend to eradicate unrest;

(4) render production of goods possible at economic prices;

(5) tend to balance adverse exchanges;

(6) create a world-wide demand for sterling bills, owing to the fact that sterling would have a higher purchasing power than any other medium of exchange in the world;

(7) make foreign countries eager to supply us with all the raw materials needed for both home consumption and export, for the sake of acquiring claims to sterling for the purchase of our manufactures at the prices which, in sterling, would be so comparatively low;

(8) enable the Treasury to sell Bills on favourable terms wherever it required funds with which to buy up maturing Bills or Debt held in a foreign country; and

(9) relieve the sufferings of those with fixed incomes the value of which the changed money standard so seriously depreciated.

B. CREDIT-RIGHT would

(1) Save from Bankruptcy those traders whose enterprises are adapted to high prices and who therefore would suffer great losses in a general drop in prices to the gold standard;

(2) promote production in all directions to the utmost capacity of the consuming markets, including both home and export;

(3) reduce unemployment to a minimum, maintain high wages through competition for wage-earners, increase the employment of labour-saving machinery to a maximum, and entice surplus shopkeepers into more productive work, with the effect of causing blocks of shops to be converted into blocks of residences as a cure for the housing shortage;

(4) release vast sums from mortgages and debentures for investment in Government loans, bonds, and other securities or in fresh enterprises here and in the British Dominions, Colonies, etc.;

(5) displace the cost of the mortgages and debentures from being a crushing burden on existing productive industry;

(6) reduce interest from 7 per cent. or 8 per cent. to approximately 3½ per cent., but restore capital values of securities reciprocally. This position would favour refunding operations and reduction of the service of the National Debt;

(7) reduce local rates; and

(8) give a national privilege to productive concerns which would encourage and facilitate the fixing of capital in this country on a scale which would DEFLATE EXISTING CREDIT by putting more realities in the form of new and true Capital Values behind it.

HOW THE GOLD STANDARD MAY BE RESTORED.

(1) Remove the cheque tax.

(2) Promote a National campaign for extending the use of cheques and the keeping of banking accounts.

(3) Tax the use of legal tender by increasing the stamp for receipts of amounts from £1 upwards.

(4) Retain present stamp poundage for receipts of cheque payments.

(5) Issue no further Treasury Notes of higher denomination than *5s*.

(6) Open continuous loan for subscription by Treasury Notes to be cancelled as they are received. (Subscriptions need not be encouraged to an extent which would remove the notes from circulation too rapidly, i.e., in fewer than 93 days.)

(7) Meet the expense of cancellation of the notes out of revenue or the proceeds of a separate loan.

(8) Close the loan for Note Cancellation when the notes outstanding equal in nominal amount the gold reserved against them. (The gold standard of legal tender would then be in force.)

(9) For a necessary period convert the present Bank Cash Reserves from Treasury Notes into short date Treasury Bills. Further reserves, on which further Bankers' credit in addition to that now outstanding could be based by the Banks, should consist only of gold deposited with the Bank of England.

(10) If existing Banks are unable to cope with the large increase in accounts and cheques, introduce the current account system into the Post Office Banks.

(11) Encourage the adoption of all known facilities for certifying cheques and transferring credits.

HOW CREDIT-RIGHT MAY BE APPLIED.

(1) Utilize Banking Machinery accentuated by the extended Cheque System.

(2) As Bankers may now fabricate Credit as Loans against Securities, permit owners of Productive Properties (Manufacturing, Agricultural, Transport, etc.) also to fabricate Credit by virtue of Credit-right vested in such properties up to 50 per cent. of their gold coin value, and to treat that Credit like the properties *as their own, not as their Bankers'*; to be used by themselves free of charge; just as the Banker uses as his own the credit he fabricates against the Securities of others free of charge to himself, whilst lending it to borrowers at something above Bank Rate payable to himself.

(3) Limit the application of the Credit to productive purposes; i.e., the creation of new instruments of production, the extension of old instruments of production and the redemption of existing charges upon these.

(4) Give the fabricators of this productive credit the necessary use of Banking Machinery at a charge made by the banker for keeping the account. Make the charge 1 per cent. for the first year and ½ of one per cent. for every succeeding year, on the full amount of the credit during the period in which any part of it is still outstanding.

On a thirtieth and final instalment this final ½ of 1 per cent. would thus represent 15 per cent.

(5) Make the Credit redeemable by a fixed number of annual instalments according to the ability to pay judged by the probable life of the Income from the property in which the right to the credit is officially vested.

(6) Charge the property as security to the amount of

the credit and also with the redemption of the credit.

Supplement this with the guarantee of the Treasury in order to make every such Credit a portion of the National Credit.

For this guarantee the fabricator of each special credit would pay the Treasury a sum equal to one-twentieth of the credit taken up.

This fee should be payable apart from the credit, not deducted from it.

(7) Make the fees a Treasury Reserve held against any future financial emergencies.

The Reserve would eventually become large enough to support, if need be, the whole financial system of the British Empire. It should be kept at the Bank of England until extension of the plan throughout the Empire enabled it to be divided over the Empire and safe financial centres in other countries also.

(8) Create an Advisory Council to the Treasury which, amongst other things, would aim to prevent either Productive Credit or Bankers' Credit from being used to promote over-competition in any particular Industry, and thus aim to establish equilibrium between production and marketability.

Over-competition would also be limited by the many different old and new occupations which would then be open to the people.

Over-competition, like that in present-day shop-keeping, is due to the fact that so few other means of livelihood are open to the persons who open superfluous shops.

NOTE.—The Credit-right Principle is necessary to the restoration of the Gold Monetary Standard. The extension of the Cheque System is necessary to both.

We are the only people capable of a cheque system on the necessary scale. Hence this country has the opportunity to place itself well in the van of all the nations in attaining to power and prosperity never before attained by any nation.

ASSUMING THAT THE BUDGET MAY BE CHANGED, ITS UNSOUND FEATURES ARE:

(1) The Cheque Tax, which should be abolished.

(2) The Excessive Income-Tax, which should be reduced and the minimum for exemption raised.

(3) The Excessive Super-Tax, which also should be reduced.

(4) Excess Profits Duty, which should be abolished.

(5) The proposed Corporations Tax, which should not be imposed.

They are based upon a sectional view of Industry, which they promote to the detriment of the opposite view.

There is a standing and much-abused antagonism in modern Business. This exists between:

The controllers of Banking, Credit and Money on the one hand, and

The practical Commercial and Industrial Community on the other.

The Financial Community endeavour to make media of exchange relatively scarce and dear to independent Commercial and Industrial Concerns; whilst

The Commercial and Industrial Community are dependent on the condition that media of exchange shall be relatively plentiful and cheap.

The Budget is wholly on the side of the Financial Community in enabling them to make Credit, which is the chief media of exchange, both very scarce and very dear as and when they choose. It must not only deprive many of the Commercial and Industrial Community of existing resources, but must also prevent the accumulating of further ones, thus leaving them at the mercy of the great financiers who are bent upon forcing the greater industries (and in the process extinguishing minor *necessities* of the people) into world-trusts, controlled by themselves, to be wrecked, however, by the upheaval of the dissatisfied Industrial Armies of workers that the Policy will produce.

The aforesaid Taxes are all Taxes either on Production or on Incentive to Production, tending to restrict Production at a time when its expansion, all statesmen agree, is a prime necessity.

The Taxes cripple production by appropriating the funds needed for the development, and even the maintenance, of existing instruments of production, as well as for the establishment of further ones.

These Taxes thus strike at the very roots of their own and the nation's support.

ALTERNATIVE TAXATION.

The alternative to taxation on Production, and on Incentive to Production, is Taxation on Consumption.

Examples of sectional taxes on consumption are Excise Duties and Entertainments Tax.

A National Tax, ignoring sections of the nation, would be a tax on general consumption. The rate should be 2*d.* in the shilling (i.e., from one-halfpenny in threepence to 8*s.* 4*d.* in the £).

The Tax, in order to avoid its being a tax on production, should be imposed only on *Finished Products* delivered to the Consumer. The Entertainments Tax is not imposed or paid until the Consumer is receiving the entertainment.

Most Entertainments would never eventuate if the Tax were a charge upon their production.

So with every other product; the more its production is taxed, and the more the service rendered in producing it is taxed, by punitive taxation of profits, the less of the product will be produced, and the less will be the incentive to render the public service of producing it. The consequence is that the product will become both very scarce and very expensive.

Contrariwise: The removal of such Taxes both increases and cheapens production.

In these conditions the suggested National Tax on general consumption of *Finished Products* substituted for Taxes on Production would so cheapen goods that a loaf, for example, would cost less, including the National Tax, than it now costs without such a Tax and with the price kept down by subsidy.

The National Tax would yield fully £400,000,000.

It is sometimes said that all Taxes are paid by the Consumer. The truth is this. If Taxes on Production can be passed on to the Consumer, Production continues; if not, then Production either decreases or ceases. Hence, when Production is the prime national need, Production should not be taxed, either directly or by diminishing incentive.

Competition, when the means exist, prevents the Producer from abusing this position. (Within reason, Credit-right provides the means.)

The collection of the National Tax on the consumption of Finished Products could proceed on the lines of that of the Entertainments Tax:

(1) Stamps on purchases.

(2) Collection on certificate after provision of sureties, etc.

"*WORK WHILE YE HAVE THE LIGHT!*"

BURN THE INFLATED PORTION OF OUR PAPER LEGAL TENDER

THE gathering darkness accelerated by the Coal Strike has lifted a little owing to a partial and temporary settlement with the Miners.

This cloud was the blackest and nearest of many. None of them is yet dissipated. Their causes—purely economic and preventable—are still in full operation.

Will this peaceful respite be utilized for the removal of those causes, of which the fundamental ones are depreciated Legal Tender Currency, and the need of Productive Credit-right? Or will the State be allowed to drift into all the horrors of a Monetary Débâcle?

These horrors were produced by the Shin-plasters of the American War of Independence, the Assignats of the French Revolutionary Period, the Greenbacks of the American Civil War, and the Rouble of Russia to-day.

> "In France, in September, 1790, it became impossible to meet the payments of the Public Debts. The relief obtained by the first issue of Assignats was too small to last long, and the ease with which it was procured caused a speedy recurrence to the same resource."
>
> "Mirabeau proposed to create new Assignats."

The proposal was carried despite the speeches of Talleyrand, Antoin Morin, Décrétat, and Dupont de Nemours, *pointing out* "the RUIN AND MISERY THEY WERE CERTAIN TO BRING ON THE COUNTRY."

The last-named said, referring to the aforesaid Shinplasters:

> "You have a striking example before your eyes. There was, ten years ago, in the United States of America, a paper currency secured like the one you propose, on the honour and loyalty of the whole Republic, and on an enormous amount of landed property, and by the safety of the State. Well, in spite of all that Congress, Washington and Franklin could do, a pair of *boots sold for* £36,000 *in paper*, and *a supper for four persons, for which ten dollars was the usual price, cost* £50,000 *in paper*."

Such arguments were ignored by the Assembly. Yet they were abundantly justified. The authorities in France took drastic steps in regard to prices.

> "These measures caused an almost entire cessation of trade. Most of the shops in Paris and other towns were shut. The retail dealers had purchased at higher prices than the maximum and were speedily ruined."
>
> *Note below what H. G. Wells says of Petersburg to-day and compare it with this description of Paris.*
>
> "Those who could keep going, only exposed for sale their goods of the worst quality at the maximum, and reserved the best for those who came to buy them in secret, at their real value. Where formerly there had been so much life and animation, there was now nothing but a sepulchral silence, and the shopkeepers barricaded their doors, ready to escape by the back at a moment's notice, on the appearance of the revolutionary commissioners.
>
> "The populace was seized with fury on seeing the natural result of these measures, and besieged

> the legislature for new and more rigorous laws to compel the dealers to continue their trade.
>
> "The meat was diseased and all sorts of provisions were increased in quantity and weight by the most abominable adulterations."

The Assignats destroyed alike the notions of value and of money, multiplied prices four thousand times and made way for Napoleon!

Russia is suffering like horrors to-day due to the Monetary System—horrors coming more slowly and in a milder form to the United Kingdom!

This is what H. G. Wells says (in *The Sunday Express*):

> "All these shops have ceased. There are perhaps half-a-dozen shops still open in Petersburg. There is a Government crockery shop where I bought a plate or so as a souvenir for seven or eight hundred roubles each.
>
> "The shops have an utterly wrecked and abandoned look; paint is peeling off, windows are cracked and some are broken and boarded up, some still display a few fly-blown relics of stock in the window, some have their windows covered with notices; the windows are growing dim; the pictures have gathered two years' dust. They are dead shops. They will never open again.
>
> "The roads are full of holes, like shell holes, often two or three feet deep. Frost has eaten out great cavities, drains have collapsed, and people have torn up the wood pavement for fires. Every wooden house was demolished for firing last winter. Every one is shabby. The death rate in Petersburg is over 81 per 1,000. All trading is called 'speculation' and is now illegal. But a queer street corner trading in food and so forth is winked at in Petersburg and openly practised

in Moscow, because only by permitting this can the peasants be induced to bring in food.

"An egg or an apple (where it can be obtained) costs 800 roubles. The credit and industrial system that produced commodities has broken down. . . . So that nowhere are there any new things."

That is the situation in process of development in Russia which will ultimately throw it back into a state of a primitive agricultural community after first making it a desperate robber nation at war with half the world and a bone of contention among Military Powers.

Our cheque system which has saved *us* from so deep a depreciation of our Legal Tender Currency is losing its power to save us further because *our* credit and industrial system too is breaking down. Costs of Products are beginning to exceed their value, because the cost of living controls organizations that have no means of counter-controlling the cost of living.

We are wrong in our conception of the relations between Balance of Trade, Foreign Exchange and Sound Legal Tender.

The Greenbacks of the Northern States in the American Civil War, during the Inflation Period after the war, caused the cost of living in 1865 to reach, according to Noyes, the highest point recorded in the country's history. It was removal of the need for so much of this Legal Tender by the extension of the Clearing House System which temporarily permitted the resumption of Specie payments and brought Foreign Exchange to but a trifle below Gold Point. But more was needed.

It is a false idea of the final solution of the problem of the depreciated Greenbacks which has to-day led astray governments, economists and financiers. It was the Wheat Famine in Europe in 1897 which, through a prodigious wheat crop of its own, enabled America to restore its Foreign

Exchanges and its whole financial position; not however because of its wheat Exports, as our own false Export notion assumes, but because of the Manufactures and the Gold that were received in exchange therefor. Both the gold and the Manufactures together struck the balance between the commodities exchanged. *But the Gold did much more.* It provided the Legal Tender Greenbacks with the necessary backing of gold and thus supplied the only foundation on which could rest the Resumption Act and all that this meant in sound internal trading.

That is a vital, imperious, sovereign distinction; a master-key to the exchange problem.

Disparities in international exchange rates bear no fixed relation to adverse trade balances. The United Kingdom owes the United States hundreds of millions of pounds and incidentally the money of the one country is below par in the money of the other country by 28 per cent.

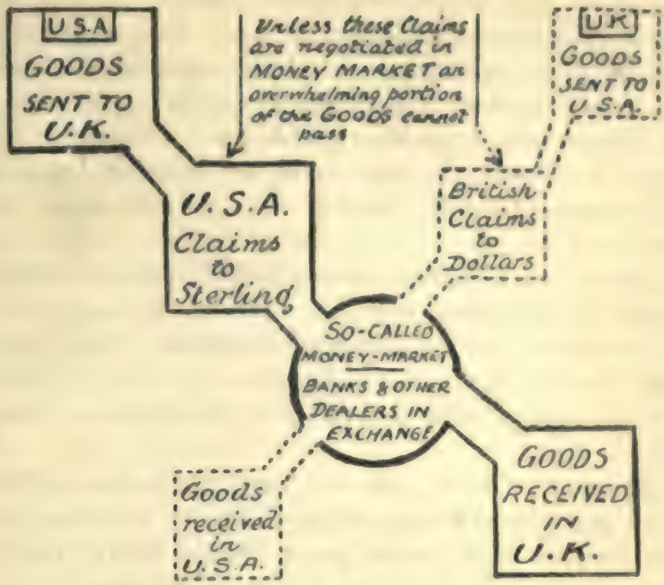
Germany owes comparatively little to the United Kingdom, yet its money is below par in our money by nearly 1,000 per cent., depreciated though our money is.

It might be said that the Indemnity provides the requisite colossal adverse balance. But Germany owes comparatively little to the United States for goods, etc., and nothing as Indemnity; yet its money is below par in dollars to an even greater extent than it is below Sterling.

These considerations refute the argument that the balance of trade is any more than a condition of some of the phenomena exhibited by adverse rates of exchange in respective moneys.

Advocates of the doctrine that adverse rates of exchange are regulated by adverse balances of trade prove too much.

Observe this diagram :—



By showing that the negotiation of Bills through Bankers and the Money Market blocks the way to the transfer of commodities from U.S.A. to U.K., and vice versa, this diagram indicates that if the Balance of Trade regulates the rates of monetary exchange, it is also true that those who deal in monetary exchange regulate the Balance of Trade. Thus the Balance of Trade argument begs the question. It is certainly true that those who deal in monetary exchange regulate the balance of Trade.

The point might be driven home with great force in connexion with the final Financial Blockade of the Great War. Suffice it to say, however, that unless the stoppage of these financial facilities could stop the passage of commodities no such financial blockade would ever be possible.

This financial control, through the Money Market, over Trade and Commerce, may be used either to supply or to deprive nations or individuals of all or any commodities. Amalgamation of Banks nationally and internationally, if the legal right to productive credit is not also created, thus constitutes a menace which may reasonably excite alarm. The truth is that rates of monetary exchanges are dependent almost entirely on the moneys themselves.

In fact, the disparity in the prices of gold in the different moneys *is* the disparity in the rates of exchange, subject only to small details of trading technique. Some say our Legal Tender has not fallen, but that the price of gold has risen and thus they account for the high premium on gold.

But the price of gold can neither rise nor fall if the money in which the price is quoted is the gold itself or an equivalent in legal tender paper backed by 100 per cent. of such gold. Every effort to cure the disparity (1) between our Legal Tender and Dollars in exchange and (2) between our Legal Tender and Gold (two ways of stating the same thing), merely by balancing Trade, will prove abortive.

When our Legal Tender Money is brought again to the Gold Standard, as is yet possible in the requisite time by means of our cheque system, we shall arrive at the true cure for our economic crisis. Prices will fall in a way which will reciprocally increase the purchasing power of our money. Low Prices in standard Sterling will bring Gold, Raw Materials and Orders here in abundance and take away Exports in the form of Manufactures and Services that will mean ultimate extinction of debt on much easier terms than those now being incurred, and national prosperity meanwhile.

The harm done by low prices to traders now dependent on high prices must be offset by instituting Productive Credit-right.

Our present policy in Money and Finance generally is leading to increasing strife and sectional starvation.

MR. McKENNA ON "MONEY AND FOREIGN EXCHANGE."

OBSERVATIONS ON THE RT. HON. REGINALD McKENNA'S MANCHESTER SPEECH ON MONEY AND FOREIGN EXCHANGE.

MR. McKENNA says: "Before the War and indeed until recently, international exchange was little understood outside a very limited number of experts."

That sentiment accords with the following, which was written by the late G. J. Goschen: "But comparatively few, even of leading bankers and merchants, with the exception of those who are exclusively or mainly engaged in international transactions, are as conversant with the subject as its immense importance deserves."

That sentence from Goschen's Standard Work on Foreign Exchanges is as true now as it was in the nineties. Skilled Bankers may work in a highly efficient manner with tools which they misapprehend, as skilled carpenters may work efficiently with tools which they did not either devise or make and of which they know nothing more than that particular tools may be put to certain special uses. Yet, as Mr. McKenna admits, "A misunderstanding of the nature of money and of the problems of international exchange may have very disagreeable consequences."

A fuller understanding of money and exchange would probably have suggested the word "tragic" rather than merely "disagreeable," because first revolution, then Bolshevism, under one name or another ranging from Communism to Despotism, with warfare inevitably supreme as both Government Policy and National Business; and finally, general social collapse, are amongst such consequences.

That is the "level of calamity to which a currency may fall." Russia, even yet, has not plumbed its lowest depths.

Nearly all Europe and the United States are sinking into the slough. This country, at least, if no other, could be saved from such wreckage (and thereby be made strong enough to help the rest) did certain bankers and statesmen truly apprehend "the nature of money and the problems of international exchange."

Fortunately for him—as it relieves him morally of a terrible responsibility—Mr. McKenna does not understand the nature of money.

Using the word Currency as synonymous with Money, he says: "Our currency derives its value from the law which 'declares it to be Legal Tender for an amount equal to its face value.'" This is inaccurate, because if value could thus come from law the Treasury could print enough Legal Tender to make everybody wealthy forthwith.

Mr. McKenna says: "The value of gold currency is determined by legal enactment." But that legal enactment merely states, for the benefit of the Community, that a certain quantity and quality of gold has a certain value; through the Mint it turns out that quantity and quality of gold in a certified form, which it then protects from being tampered with or imitated.

It is the gold, not the legal enactment, which gives the value. As to precise quantity in a unit, Legislation merely registered Custom.

The following accurate definition of Money is taken from Charles Conant's *Principles of Money and Banking*:

"The definition of Money which will be adopted in this work is that commodity of intrinsic value acceptable in exchanges which has become by *law or custom* the usual tender for debt. Put into more popular language, this means that the term money, under existing conditions, is applicable to gold or silver coin, and should not be extended to the various forms of paper which economize the use of money. For most practical purposes, gold bullion held in bank reserves is properly classed as money, and falls within the definition given. It will be seen hereafter that in the actual use of money in domestic transactions the coinage of the metals is an important factor; but in foreign trade bullion is quite as useful as coin, and in domestic use bullion in bank reserves may be said, in a sense, to be serving the purposes of coined and circulating money through its paper representatives. The use of the word money is extended by many authorities to different forms of credit obligations—by some to redeemable Government paper or redeemable bank-notes; by others to irredeemable paper of either type; and by still others to the checks (cheques) deposit entries and various written instruments which are employed in carrying on exchanges. The difficulty about these extensions of the definition beyond coined metal of intrinsic value is that there is no logical point at which the things included in the definition of money terminate. If the definition is extended to instruments of paper credit, it is not clear why it should stop with legal-tender instruments and fail to include bank-notes which are not legal tender. If it is extended to the latter, it is not clear why it should not extend also to foreign bills of exchange, which are kept by many of the European banks as a part of their coin reserves, ready to be sold for coin whenever they have need for it. . . . In so far as this theory ignores the necessity for intrinsic value in the *material of money*, it is likely to lead to grave errors." Vol. I., Book I., Pages 4–6.

Our Treasury Notes, therefore, in so far as they are not fully backed by Gold, are not Money, but Money-substitutes to be classed among "the various forms of paper which economize the use of money." The fact that gold sovereigns are Legal Tender for face value, when gold is at a high premium in Treasury Notes, does not give the sovereign any value but takes some value away. Its effect is to deprive the sovereign of its Legal Tender Currency function by driving it into secret places and service or abroad—anywhere out of range of such extraordinary law.

"Par of exchange between countries is a constant ratio by law," because other countries conformed to the unit of standard gold which had been adopted by law in this country in 1816, but so adopted because John Locke had proved over one hundred years before that *Custom* had already established it.

It is quite true, as Mr. McKenna says, that "when this ratio varies, gold leaves the country with lower exchange and goes to the country with higher exchange." Hence, the more adverse the ratio the more adverse the exchange, and, consequently, the less adverse the ratio the less adverse the exchange. The adverse ratio means less gold-backing to the legal tender unit concerned, which is generally depreciated, unsound, insolvent legal-tender paper.

This flagrant cause of an adverse exchange (which may be rapidly remedied without injury to High Finance, if High Finance is not permitted to order everything in its own high-handed and narrow-minded fashion) Mr. McKenna makes no reference to. But Foreign Exchange experts have not ignored it.

Referring to Depreciation of the Currency, Goschen says (*Foreign Exchanges*, page 64):

> "We have thus discovered an influence which apparently affects the fluctuations in the foreign exchanges far more powerfully than any previously discussed; interest of money, a balance of debts over claims, panic, distance, and so forth, practically cause the exchanges to vary within a few per cents.; a variation of ten per cent., owing to all these circumstances combined, is considered something extraordinary, and only occurs under rare combinations. But, as soon as the element of currency is introduced, we have had at once an instance before us in the Vienna Exchange of a variation of fifty per cent."

This proves that the more depreciated the Legal Tender Currency, the more adverse is the ratio and by consequence the more adverse is the exchange.

In other words, just as price-levels generally, in a depreciated Legal Tender Currency, might be high, the price of exchange for better Legal Tender must be high.

Mr. McKenna is therefore in error in stating that "the ratio of exchange between any two countries is normally determined by the ratio of their general price-levels."

This is a confusion of cause with effect, a case of putting the cart before the horse, for it is the ratio of their general price-levels which is determined by the ratio of exchange; which again is determined by the character of the Legal Tender Moneys. (At one time prices in America were always higher than in the United Kingdom for no other reason.)

Mr. McKenna himself proves the weakness of his argument by first citing general price-levels as the cause and then modifying this cause by others which are really no more than further effects of depreciated Legal Tender.

He says: "Without any alteration of price-levels" international exchange may "show wide fluctuation" and cites seasonal changes in demands for particular commodities. As Goschen proves, however, when fluctuations in those circumstances *are wide*, there must be depreciation in the Legal Tender Money of the prejudiced country.

Mr. McKenna further modifies his so-called rule by saying: "The rule only applies to nations which have a substantial import and export trade."

But is it not obvious that such a rule, if it were truly a rule, would apply wherever there is any import and export trade, and not merely in countries where that kind of trade is substantial? And is it not apparent that the state of the import and export trade between all countries to-day is being determined almost wholly by the ratio of foreign exchanges?

Mr. McKenna takes the case of Germany as a country having little or no such trade to-day and incidentally makes an interesting remark. He says: "The value of the mark, which formerly was 1*s*., is now about 1*d*." A little earlier he had stated currency "derives its value from the law which declares it to be Legal Tender." We are therefore to presume that the German Law of Legal Tender designedly made the value of the mark a penny instead of a shilling!

Throwing this rule overboard, he says: "There must be some other cause for the great decline in the mark, and we have not far to go to find it."

This "find" is apparently no more than that "the demand for foreign imports is abnormally great and the power to pay for imports is comparatively small"!

The mark of to-day is a different mark altogether from the mark which used to be worth a shilling, just as our £1 Treasury Note is a different £1 altogether from the coin which used to be worth £1; but Mr. McKenna does not give that cogent reason as any reason for the great decline of the mark in value!

He says that the seller of goods to Germany only consents to take marks at a greatly depreciated rate of exchange because he has to hold them for an indefinite period until the German power of production is restored. But this does not cause the low value of the mark. It is an effect of the low value. If the marks were sound Legal Tender correspondingly fewer of them would be accepted despite German incapacity to pay in commodities. The number of marks actually taken is determined in an overwhelming degree by the lack of standard-gold-backing to Legal Tender Marks, not by the cozening of any particular seller into a consenting frame of mind.

It is an instance of the influence of unsound Legal Tender Currency on rates of exchange.

Mr. McKenna states that "America does not wish to take an obligation to pay reckoned in British Currency unless this currency is sold to them at a reduced rate of exchange." But this again is because the standard gold behind British Legal Tender Money is less than that behind American Legal Tender Money. Beyond comparatively small differences to which Goschen refers, as above, the rate of this American exchange can be practically normalized by so reducing the quantity of our paper Legal Tender that it will be brought to parity with the standard gold which we possess.

Clearly the nature of Legal Tender Moneys, far more than any other consideration, determines the price of all commodities, including that of gold and of obligations to pay reckoned in any currency. Clearly also, general price-levels, whatever they may rise or fall to in connexion with supply and demand, cannot be but very largely the result of the character of Legal Tender Moneys. Under these circumstances, Mr. McKenna's case that General Price-Levels determine the ratio of foreign exchange, whilst price varies with production, purchasing power and velocity of expenditure, or the rate at which the national income is spent; and that therefore, by inference, production, purchasing power and velocity of expenditure, or the rate at which the national income is spent, determine the ratio of foreign exchange, is almost wholly a myth.

The fact is that as the nature of our Legal Tender Money mainly determines our rates of foreign exchange and also our prices, so it determines as well our production, purchasing power and velocity of expenditure, or the rate at which the national income is spent.

Take PURCHASING POWER, which Mr. McKenna regards as "the total of bank deposits and money in circulation." When prices rise, purchasing power, whatever its *nominal* amount, inevitably decreases; the purchasing power of a nominal pound note certainly decreases when it will buy only 2 fowls at 10*s*. each, instead of 5 fowls at 4*s*. each; or one pair of shoes at 20*s*., instead of two pairs of the same shoes at 10*s*. per pair. Now when the Legal Tender Money, in terms of which both the said purchasing power and prices must be named, has been itself reduced in intrinsic value by half, it becomes obvious that prices and purchasing power must be nominally doubled in order to represent truly the previous relationship; and when it is known that the financial documents and obligations underlying all the transactions in commodities to which purchasing power and prices can have reference are being constantly subjected to the acid test of parity with standard gold it should become equally obvious that both in theory and in practice the nature of our Legal Tender Money determines prices and through prices determines purchasing power.

Next, take PRODUCTION. Owing to both natural and artificial inequalities in production the inflation of prices, through depreciation of Legal Tender Money, operates without any propriety or sense of proportion, and thus, in business after business, costs are caused to exceed values, until prices which seem like attempted robbery have to be charged, or production must cease. At such times businesses with no control over the cost of living collapse under demands forced upon them *by* the cost of living.

Production is thus restricted, supplies reduced, and prices rendered inordinately high by reason of the depreciation of our Legal Tender Money. This is happening now when more and cheaper production is the crying need of the day.

That the VELOCITY OF EXPENDITURE, or the rate at which our national income is spent, is due to the same cause—depreciation of our Legal Tender Money—goes without saying. It not only raises prices directly, but by reducing supplies it raises them indirectly too. Nowadays, from this cause alone, a lot of money goes a very little way, whether the money be that of the Government or of the private individual. The depreciation of our Legal Tender Money has produced conditions which give money wings that make it fly, and for millions of the people make it a mockery to talk to them of Saving!

Therein lies the irony of the methods for reducing prices proposed by Mr. McKenna, as follows:—

(1) Save larger proportion of income.

(2) Increase production by harder work.

(3) Diminish purchasing power.

(4) By the power of the Government over Taxation.

He does not suggest the greatest method of all, that we shall make our Legal Tender Money sound, which it is well within the power of the Government to do, if short-sighted Financiers will permit them—Financiers who, but for the support of the Government, would be of small account.

It is not to the restoration of sound Legal Tender that these Financiers object, but to a certain admission of others into the magic circle of credit that must now inevitably go with it.

Production would then be increased by increasing the instruments of production; purchasing power might be *nominally* decreased whilst *actually* increased, a larger proportion of income could be saved because a smaller proportion of income would be required for living expenditure and the Government could reduce taxation generally by being able to obtain its requirements for less money, and specially by enabling a greater number of individuals to pay without impoverishment.

Best of all we should be the arbiters of our own fate, not dependent as we must be, according to Mr. McKenna's methods, upon expenditure being "reduced" in *ALL* countries. One wonders, if all expenditure in all countries were suddenly to *CEASE*, where the world would be!

Mr. McKenna says we require more efficient methods and strong and certain policies. What these would be, or do, one cannot say. But we certainly require strong and certain Legal Tender Money!

Nationally-guaranteed Credit-right for productive purposes, based on 50 per cent. of productive properties, according to their gold values, is now essential as a safeguard in rapid restoration of sound Legal Tender. Its products would soon include a powerful, prosperous people. What par of Standard gold is to sound Legal Tender, a powerful prosperous people is to a State.

OPEN LETTER TO THE VICEROY-DESIGNATE OF INDIA

THE RT. HON. THE EARL OF READING, P.C., K.C.V.O., G.C.B.

MY LORD,—In an era of false economics and fictitious money, when men of understanding see their business undertakings being sucked into a whirlpool of chaos and destruction—at this great crisis in British relations with India, your appointment to the high office to which you have been called is welcomed by all who appreciate the brilliant statesmanship, diplomatic skill, financial knowledge and patriotism that the solution of the fundamental problem to be solved requires.

In Great Britain and Ireland, Industry and Finance are each approaching a distinctive deadlock, and the cause is primarily Legal Tender.

In India the Crisis is due to the Rupee, the character of which was altered in August, 1920, in the first paragraph of Section 11 of the Indian Coinage Act of 1906 by substituting the word " ten " for " fifteen," thus making the sovereign Legal Tender for ten rupees instead of fifteen. The clause now stands as follows :—

> Gold coins, whether coined at His Majesty's Royal Mint in England or at any Mint established in pursuance of a Proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall be legal tender in payment

or on account at the rate of ten rupees for one sovereign.

Under Hoarding in Vol. II., Page 314, Palgrave's *Dictionary of Political Economy*, the following appears:

> "The most extensive system of hoarding of which there is any record is that which exists in India, and has been going on there for a very long period. This has undoubtedly arisen from the unscrupulous character of former rulers of the country, and the habits induced by ages of misgovernment continue to influence the people in their present condition of security and under their increased opportunities. Both gold and silver, in the form of bullion, of coin, and ornaments are hoarded by the natives of every class. Estimates as to the amount of wealth lying dormant in this way differ very much, but the population is so numerous, and the habit so universal, that the amount must be very large. Enormous hoards are known to be in the possession of some of the native princes; and from the age of some of the coins contained among these treasures it is evident that the accumulation must have commenced hundreds of years ago."

By this time the value of the gold hoarded and active in India must far exceed the value of the silver.

But all the gold, or claims to gold, possessed in any form by those of every class of the population having obligations to pay in rupees is now struck down by one-third in lawful value. If they offer gold in settlement of those obligations they find that what they could recently offer as 15 rupees they can now offer as no more than 10. If they were to part with the gold they would find in the process that one-third of it had been confiscated.

Naturally they decline to part with it in these utterly unjust, even if lawful, circumstances.

The consequence amongst extremists is Sedition and amongst moderate people Consternation; to be followed by stagnation in trade, financial failures, robbery, murder, famine and pestilence—all in due succession.

For as the gold in India disappears its purchasing power will disappear, too, and its efficacy in the promotion of trade will be absolutely paralysed.

The gold supporting the paper rupee will disappear. The paper rupee will become depreciated and the purchasing power (equivalent to 2*s.*) with which it was to be endowed, by a foolish statute, will fail to materialize.

Ten rupees, rated at ten to a sovereign, will no more buy other commodities than it will buy gold. Law may take the horse to the water but cannot make it drink. In this case Law will better preserve respect for itself by retracing its steps.

Whilst the vast majority of the nation suffer, silver-dealers alone smile and rub their hands.

The silver rupee and half-rupee is legal tender in India for any amount, and under the Statute referred to ten silver rupees may be offered as the equivalent of either a sovereign or £1—a distinction with a difference!

But that which will in fact be obtainable either here or there for Ten Silver Rupees will not be equal to the weight of fine gold in a sovereign, but instead to no more than the amount of fine gold in ten-thirty-secondths of a sovereign. Why? At the present relative values of gold and silver in British Legal Tender one unit of gold is equal to more than 32 units of silver, gold being quoted at £5 13*s.* 3*d.* per ounce and silver at 3*s.* 5½*d.* To create a false ratio of 10 to 1 instead of 32 to 1, claiming a rupee to be one-tenth instead of one-thirty-secondth of a sovereign, though it may be good for silver dealers and enable the Mint to score in coinage, is rather slim than honest and would be wholly unworthy of a Government, even if it could be made a lasting measure.

The present Government of India may lend a willing ear to those of its advisers who desire to maintain an artificial value of silver. It is probably tempted to do this by the profit or seigniorage which accrues from the coinage of the metal. It is officially stated that the rupee coinage of the Indian financial year 1919–1920 (coinage ranking as unlimited Legal Tender) amounted to 37,05 lacs, involving nearly 138 million ounces of standard silver, which means that the cost of each rupee was less than 1*s.* 3*d.*, while the coin received a face value of 2*s.*; or that in total the cost was about £22,000,000, which was endowed by legal magic with a legal value of over £37,000,000.

It should be noted that no legal enactment under these conditions can make the real value of the rupee, whatever its nominal value, more than 1*s.* 3*d.*; and, further, that this is not a pre-war 1*s.* 3*d.*, but one which is much depreciated below pre-war value.

Under the change in the Coinage Act alluded to, not only is this £22,000,000 in silver made Legal Tender for £37,000,000, but it is raised to an equality with more than £50,000,000 in gold, for that amount of gold is not permitted to be Legal Tender for more than £37,000,000.

This is worked out as follows:

£22,000,000=138,000,000 ounces of Silver at 3*s.* 5½*d.* per ounce.

138,000,000 ounces of Silver=Rs.37,05,00,000, or 37,05 lacs of rupees.

Rs.37,05,00,000 .. .. =37,050,000 Sovereigns at 10 Rupees to the Sovereign.

37,050,000 Sovs. .. =about 8,750,000 fine ounces of Gold.

8,750,000 fine ounces of Gold =about £50,000,000 at the market price of £5 13*s.* 3*d.* per ounce.

But the serious character of the subtle manipulation of Indian Legal Tender in favour of silver-dealers may be made even more apparent.

According to the true ratio of the metals in the market one ounce of gold is worth more than 32 ounces of silver, gold is worth thirty-two times silver; £22,000,000 in silver should be regarded as one-thirty-secondth part of thirty-two times itself; that is, it *should* be regarded as merely £22,000,000. Yet it is in fact regarded as one-TENTH of thirty-two times itself, or £70,400,000, nearly three times its true value.

This method of calculation, based on the purchasing power of both silver and gold, expresses the full advantage which the instigators of the change in the Statute vainly tried to confer on silver at the expense of gold. When gold is not allowed to pass current at its full value whilst an attempt is made to force silver to pass current at three times its full value, intelligent Indians must have disquieting ideas of the sense of justice of the British Government of India. The Statute has made not value but trouble!

It is not surprising that India is seething with discontent.

The price of this futile effort to defy the laws of equality will be the loss of India!—unless your Lordship arrives there in time to "stop the rot."

The economic position of this country in relation to India now is that India cannot buy our goods, goods already supplied she cannot pay for, 30-day bills are running for 120 days, because Bankers dare not press for settlement lest a panic should ensue; and quotations for supplies to India by foreign countries not called upon to underrate our gold or overrate our silver in legal tender undercut our prices in amazing ways.

In the case of goods from the same British catalogue the Continent is quoting in Sterling at 40 *per cent. below catalogue price* whilst firms here must *quote* 27½ *per cent. above catalogue price!* But though the British Trader is thus sacrificed even then India cannot buy!

To save India for the Empire, my Lord, and to help to save the Empire, look to this unscrupulous manipulation of

Money and Credit. India requires a single standard of value, The Gold Rupee. This Rupee must be a proportionate part of the standard gold contained in a sovereign; one-fifteenth or one-tenth, as you will. But it must be the only unlimited Legal Tender.

It may be made of paper issued against gold, paper which must as quickly as possible be based wholly on gold. The necessary token coinage may be of nickel and bronze. Silver must be left to itself as a mere commodity. In its capacity as a commodity, and with some help from the Government where the help is deserved, it will still serve as a medium of exchange without being endowed with the quality of Legal Tender. The cost of the help given will be the price of saving India, and the help will be due to those who honestly believed as a consequence of the action of the Government of India that the silver rupee was really worth one-tenth of a golden sovereign.

Gold standard values in both this country and India will loosen the trading deadlock. Continental legal tender might be at a still heavier discount in Sterling, and Sterling would buy more Continental legal tender in the same way as it would buy more of everything. But India could buy; business could be done. Even if it were done by the Continent, it would not be because the Sterling obtained would enable the Continent to buy its own Legal Tenders but more importantly because the Continent could use the sterling and its great purchasing power for the purchase of more goods either in this country or in India itself, thus bestirring trade in the one or the other or in both.

I take leave to subscribe myself,

My Lord,

One of your Admirers and Well-Wishers.

WILL GERMANY WIN YET?

INDEMNITY AND CARRYING TRADE

To the Editor of "The Daily Telegraph."

SIR,—The proposed settlement of the German indemnity has brought this country to the edge of a precipice. One can only hope that Mr. Lloyd George "convinced against his will is of the same opinion still."

In practice the debt must be paid by the purchase and remittance by Germany of bills of exchange drawn on the Allied countries. German exporters, having bills to sell drawn on London or Paris, for example, will profit by the abnormal demand for these bills by the German Government for indemnity payments. This demand, expressed in much-diluted legal tender, will send the bills to a patchwork premium. The premium will enable the German exporter to undersell his rivals in other countries. These exports, encouraged by the Governments of the receiving countries in the interests of the indemnity, will undermine the home industries of those countries. If a tariff wall is erected to keep out the offending exports, the indemnity cannot be paid. The Allied countries are thus placed on the horns of a dilemma. They must either suffer in trade or be disappointed of their indemnity.

In these circumstances it may be that the true object of the proposed 12½ per cent. tax on German exports is to circumvent this possibility of Allied industries being under-sold. Does that settle the question? Twelve and a half per cent. in being added to the price of the goods must diminish the chance of their materializing as exports. If the 12½ per cent. were not added to the price of the goods, this part of the indemnity would be payable by exporters alone. But the export trade could not survive such discrimination against it. Exporters would go out of business. The German Government might, of course, commandeer goods for export, and so endeavour to carry on the export trade; but that would necessitate a Communist or Bolshevik regime. Even then, however, the proposed importing countries as represented by individual traders might not buy goods with 12½ per cent. added to their price; not to speak of a possible tariff against them.

The German export trade may, therefore, be destroyed. But if it is destroyed, how can any indemnity be paid? If nothing comes from Germany, nothing is paid. Anything that comes must be in the form either of goods exported or transport charges or travellers' expenses in Germany, or the transfer free of charge of foreign securities owned by Germany. With her export trade destroyed and her foreign securities hypothecated or sold, as they have been, her only chance of paying the indemnity can come from services rendered, e.g., if the rest of the world make Germany the great highway of the European continent, diverting to her railways and rapidly-growing mercantile marine the major portion of its carrying trade, thus gratifying her pre-war ambitions. When she had supplanted Great Britain in this great service, bills being drawn against it and remitted in redemption of her debt for a period long enough to put those engaged in our carrying trade out of business, what would become of the balance of the indemnity? What would Great Britain have gained from 22 per cent. of the paid-up part of the indemnity against the loss in wealth and power that the loss of her carrying trade would involve? To whom would the power, and ultimately the wealth, have accrued? Who, in fact, would have won the war?

It may be contended that the $12\frac{1}{2}$ per cent. will not interfere with the export trade, because the tax will be imposed, not on exporters in particular, but on the German community in general, to an amount regulated by $12\frac{1}{2}$ per cent. on the value of the exports. But the payment over to the Allies is the crux of the question. The German Government might export on its own account in order to obtain credits to the $12\frac{1}{2}$ per cent. extent in the countries where its payments were due. But it would thus enter into competition with the exporters of its own country. This would have serious effects on the general export trade, including that against which the bills had to be drawn that the German Government hoped to buy for use in settlement of the fixed indemnity instalments. In order to avoid this, the payment over to the Allies would again take the form of the purchase of bills drawn mainly against carrying charges, if the payment were made at all.

UNDESIRABLE ALTERNATIVES

Under the present scheme of reparation or indemnity the Allies are therefore confronted with three undesirable alternatives:

1. The undermining of their industries.
2. The loss of their carrying trade, plus the gain of it by Germany.
3. The cancellation of the indemnity by the Allies or the repudiation of it by a strong Germany.

Even if Germany had not eventually the will to repudiate such an indemnity it would sooner or later, from purely economic considerations, be confronted with the necessity of doing so.

The indemnity is as follows:

Annuities, bearing no interest, which constitute fixed instalments :

2 of £100,000,000	each	=	£200,000,000
3 of £150,000,000	,,	=	£450,000,000
3 of £200,000,000	,,	=	£600,000,000
3 of £250,000,000	,,	=	£750,000,000
31 of £300,000,000	,,	=	£9,300,000,000
42			£11,300,000,000

In addition to this, the German people must pay 12½ per cent. on the value of their exports. The normal value of these before the war was about £400,000,000 per annum ; 12½ per cent. on forty-two times £400,000,000 must therefore be added. This is one-eighth of £16,800,000,000, or a further £2,100,000,000, bringing the positive total up to £13,400,000,000, payable in forty-two years.

But this indemnity has a negative aspect. To its deprivations should be added the further deprivation of that part of income which is normally reinvested in the development of industry, the absence of which would progressively reduce the paying capacity of Germany simultaneously with the increase of its obligations. If internal debt in Germany must be repudiated, it is certain, despite either actual or threatened punitive measures, that external debt must be repudiated also, because the repudiation of internal debt would destroy the capacity to redeem external debt. But if internal debt is not to be repudiated, the colossal weight of such an external debt cannot in addition be borne. The two together would render industry futile as an occupation to the masses of individuals required to carry it on. National industrial paralysis would ensue. At the earliest opportunity, compelled by necessity, the German people, united to a man, would shake itself free from the domination and the debt of the Allies.

That must be the outcome if Germany agrees to, and the

Allies enforce, the form of indemnity now proposed. However, there is another method whereby a proper indemnity can be paid. The German Government may act as purchasing agent for the Allied countries, paying for the purchases which it may make on their behalf. It may purchase specified quantities of agreed merchandise from its own industries and supply them at an agreed gold-standard price to the Governments of the respective Allied countries, who, again, may sell the goods to their own merchants at market price. The home credits so derived, the Allied Governments may credit to Germany's indebtedness. Next, the German Government may subsidize imports from the respective Allied countries of agreed quantities of agreed merchandise, and take credit for the gold-standard value of the agreed subsidy paid in respect of those imports. A special indemnity tax, rather less than the equivalent of the German subsidy, must be imposed by the Allies on the merchandise exported under these conditions. The nature of the merchandise agreed upon for this purpose must be regulated by the economic needs and convenience of the Allies.

The quantities of the various kinds of merchandise must be limited to annual proportions that will not seriously prejudice the economic exigencies of Germany. In monetary terms, £100,000,000 per annum probably represents that limit. In 100 years Germany would thus have paid £10,000,000,000. No interest should be chargeable except upon instalments, the payment of which had not been completed within their allotted years.

There are other means than further help from Germany whereby the Allies may speedily ensure their own recovery. This country should lead the way, but it has not started yet. —Yours, &c.

January 31, 1921.

GERMAN INDEMNITY

NOTES TO BEARER

To the Editor of "The Daily Telegraph."

SIR,—I observe that, as evidences of her debt, Germany is to give notes payable to bearer for the annuities; that these notes are negotiable securities; that if they are effectively guaranteed the recipients can raise loans on them; and that they will have the endorsement of the Allies, for otherwise they would have no market value and nobody would lend money on them. All this means that this paper is to be circulated in the Allied countries by being made the basis of loans obtained by the recipients, who, in the first place, are the Governments of the respective Allies, and also the guarantors.

The Allied Governments are, therefore, to put into circulation German paper, for which good value is to be given, in exchange by the nationals of the victorious countries. The Allied Governments guarantee that this paper is good enough to get value out of their own people, although it is not good enough yet awhile to get such value out of the German people. This is clearly an attempt to make German paper as good currency in all the Allied countries, as the currency of each country is within its own boundaries; and, moreover, seeing that the German currency is to be guaranteed by all the Allies, better currency in each Allied country than is the currency of one Allied country in another. It is an amazing proposal. If the Allied Governments use their power to make German currency practically equivalent to legal tender over nearly all Europe, they are serving, not a beaten foe, but a conqueror, and giving the best service a conqueror could exact.

This would be too obvious if the almost worthless paper marks, which are the direct obligations of the German Government, were imported in settlement of the debt for the time being, and openly forced upon the public as valid payment. It would be hard indeed for the public then to realize that we had won the war. Yet these evidences of debt are no different in principle. Under the circumstances one could not be surprised if our Treasury should print off Treasury notes at cost of printing to the order of the German Government for the amount of our portion of the debt, and accept them, for enabling us to pay ourselves what we do not owe ourselves but which is owed to us by Germany.

So much for the fixed instalments of the indemnity. On the subject of what was described by the Press unanimously as a 12½ per cent. export tax, it is interesting to note, in the account of an interview in your issue of to-day with Commendatore Giannini, the originator of the idea, that this is not an export tax and that it is not 12½ per cent., but 12 per cent.; also, that it is a percentage on all export receipts. It is a percentage that the buyer, whether an Ally or a neutral, is not to pay and pass it on to the Allied or neutral consumer as he would inevitably have to do in the case of a tax on exports properly so-called. Commendatore Giannini is, however, playing with the fire he deprecates when he proposes that the percentage shall be collected from the buyer. The German exporter is to be reimbursed by the German Government for the deduction from the payment for his goods. That again is a dangerous expedient. It savours very much of a subsidy by the German Government on Germany's exports to all parts of the world. This would be a splendid thing for Germany if all the world would stand it. The power of finance through the machinery of price-rings is quite capable of arranging who shall actually pay that percentage on the subsidized imports from Germany.

Meanwhile, it is admitted that the Governments who will receive the indemnity will receive it in the currencies of the Allies, plus the kroner, pesetas, dollars, etc., which it is intended foreign and neutral countries shall collect for the Allies against goods which Germany is to be paid for. When this proposal can be put forward it is not surprising that a belief was widely entertained at the Peace Conference that the Italian delegates were not as intent as any of the other Allies upon making Germany pay.

The outlines of a real method of obtaining a real indemnity were put forward by me in 1918 and again in my letter in your issue of February 1. A striking difference between this method and the above is that Germany would have to subsidize imports from the Allies into Germany, not exports from Germany into the Allied countries. The difference is vital. In respect of the exports representing payment of indemnity, the German Government would have to pay the whole cost in Germany. The Allied Governments would receive them free and sell them to their own merchants, pocketing the proceeds.—Yours, &c.

February 2, 1921.

LEGISLATIVE CORKS ON TROUBLED INDUSTRIAL WATERS

THE TRADE RESOLUTIONS

RESOLUTION I.—PROTECTION OF KEY INDUSTRIES.

That for a period of five years from the passing of an Act for giving effect to this resolution there shall be charged on any of the following articles imported into Great Britain or Ireland a Customs duty of an amount equal to 33⅓ per cent. of the value of the article, that is to say: . . . . etc.

RESOLUTION II.—PREVENTION OF DUMPING AND BALANCING OF EXCHANGES.

There shall be charged on any of the following articles imported into Great Britain or Ireland, in addition to any other duties of Customs chargeable thereon, a Customs duty of an amount equal to 33⅓ per cent. of the value of the article, that is to say: . . etc.

IT is true that the trade of the country needs several kinds of protection, and now, of all times, protection from such resolutions as these.

Resolution I. provides for a 33⅓ per cent. Customs Duty on the importation of certain goods which represent key industries.

It provides, therefore, for an equivalent increase in the prices of these goods, and also in the prices of goods in the industries opened by these keys.

These prices are already inflated by quotation in inconvertible paper which is the legal tender money of the country.

In the Resolution the words, "the value of the article," in order to be properly interpreted, should be "the inconvertible-paper-money-value of the article"—a very different factor of the problem.

The resolution provides, therefore, for raising already inflated, uneconomic prices by 33⅓ per cent., further increasing the inflation by a portion of this 33⅓ per cent., and for correspondingly reducing the buying power of the money which the wage-earner and persons of small income must expend day by day in order to live.

The Resolution does not provide that the key industries SHALL be carried on in this country and so create more employment.

Tariffs cannot build up Industries on small markets and inconvertible paper legal tender. Industries can be erected on high or low prices, but not on false pretences in prices.

The Resolution does not provide that these industries shall NOT be removed to places where "keys" can be obtained more cheaply.

It does not provide that manufacturers SHALL enter upon industries dependent upon products which they know can be produced more cheaply elsewhere, industries which they will have to abandon in five years—a period which is neither evanescence nor permanence, but merely prolonged anxiety. The Resolution does not provide a sure market for these expensive products, although that alone could warrant their production.

All of which means—that it will reduce employment, that it will create demands for more doles (the certain symptoms of economic disease), that it will concentrate our vast national burdens on fewer industries, and that it will so provide the last straws for breaking the backs of the industrial camels which are already almost solitary figures in a rapidly extending industrial desert.

Resolution II. provides that on certain goods the aforesaid inflated paper prices shall be raised in some cases by $33\frac{1}{3}$ per cent. + $33\frac{1}{3}$ per cent. + (in the case of Indemnity goods) 50 per cent. = $116\frac{2}{3}$ per cent.

It provides moreover for a general hold-up of trade in the goods affected.

In this way:

The Resolution says: " For the purposes of this resolution ' cost of production ' means the CURRENT STERLING EQUIVALENT of the wholesale price at the works in the country of manufacture."

But as Sterling is represented by inconvertible paper money, the value of which changes daily and differently in different places at different times and seasons, and is therefore unstable; and as this instability will be added to by efforts to give one place an advantage over another at a given time, it is plain that fluctuations will be too bewildering to cope with and stagnation will result.

This resolution, again, does not provide that goods, if excluded, SHALL be manufactured here. It infers that they MAY be, and so may provide employment.

It does NOT infer what is much more likely, namely, that industries especially dependent on some of the goods may be forced to take them for a time at any price, until, with a few favoured exceptions, they are " down and out."

THE RESOLUTIONS STRIKE A SUICIDAL BLOW AT THIS COUNTRY!

THEY WILL STRIKE NO BALANCE IN EXCHANGES!

BUT THEY WILL STRIKE ALREADY STRICKEN COUNTRIES WITH FURTHER INDUSTRIAL PARALYSIS!

More Industries are needed—more employment is wanted—more Financial Liberty is wanted—but the Resolutions will not bring them.

Figuratively, the resolutions do not put the cart before the horse, but they turn the horse in the shafts, facing the cart, with wholly mischievous results, the horse quivering and frightened, the pinioned men and women in the cart angry, while a few big traders motor by smiling at the predicament of their humbler fellows.

BEFORE THE NEW CHANCELLOR OF THE EXCHEQUER (supposedly the responsible author of the resolutions, and said to have blessed the " TER MEULEN " Credit scheme—a crowning iniquity) IS PERMITTED TO PILOT THESE RESOLUTIONS THROUGH A FINANCE ACT HE SHOULD BE REQUIRED TO EXPLAIN TO THE HOUSE OF COMMONS AND THE COUNTRY THE TRUE NATURE OF OUR PRESENT LEGAL TENDER AND THE FUNCTIONS WHICH IT IS ACTUALLY PERFORMING IN TRADE AND BANKING, TO THE DETRIMENT OF THE PEOPLE, THE NATIONAL INTERESTS, PRODUCTION AND EMPLOYMENT.

THE TRUTH ON THIS SUBJECT, WITH ITS SEMI-LEGAL FICTIONS AND CUSTOMARY FICTIONS, WILL REVEAL THE REAL CAUSES OF THE TANGLED INDUSTRIAL SKEIN, TO UNRAVEL WHICH MEN CAN VAINLY BLUNDER INTO SUCH UNWISE AND MERCILESS RESOLUTIONS.

THE NATIONAL AGONY!

THIS is great already and will grow much greater. The cause is not workers and employers, but misapplied power in the hands of so-called statesmen who are merely obstinate politicians, ignorant (whatever their educational pretensions and attainments) of the A B C of National Economics.

That ignorance is proved by a toleration of inconvertible, or partially inconvertible, Legal Tender Paper Money which must not be charged to expediency because nothing could be less expedient.

What is a Treasury Note? It is a Sight Bill of Exchange which by law the public must meet and meet again by finding commodity or service value for it EACH TIME IT CHANGES HANDS.

Ordinary bills of exchange, by whomsoever endorsed, need not be accepted without ample proof of value.

A Treasury Note must be accepted irrespective of value.

All bills of exchange, including Treasury Notes, are credit instruments. The Credit used is necessarily Banking Credit. When Banking Credit, in the judgment of Bankers, is too expanded, it has to be contracted. *Contraction of credit stops the production and circulation of commodities and services, and thus the legal obligation of the public, to meet Treasury Notes with commodities and services, is strangled by the basic principle of the Treasury Notes themselves!*

The Public are squeezed so unmercifully that even the most apathetic of them (not merely miners and Triple Alliances) are finally forced, as a National Alliance, to show fight.

The Government or the Constitution which has then no remedy, except fighting back, is doomed.

There is a further very vicious aspect of these notes, which, in order to avoid particularization too near home, I shall illustrate with Federal Reserve Notes. These, in the United States, are, like our Treasury Notes, "inconvertible, or partially inconvertible, legal tender paper."

When sellers of goods, not being paid but requiring funds, draw bills on their debtors in order to discount the bills; and when buyers of goods, who cannot pay at the time, either have bills drawn on them, or give promissory notes, for discounting purposes, the Bills represent the Debts of Debtors who cannot pay for the time being, and the problem they present is *how to compel some one else to pay until the real debtor can conveniently do so.*

To solve the problem, the Banks, with the connivance of the Government, expressed in the Federal Reserve Banking Law, give, in exchange for the Bills, Federal Reserve Notes. These are an obligation *forced* on the general public in that they cannot be refused in business transactions, as private Bills may be refused, because to refuse payment offered in Legal Tender is unlawful.

> (The Banks make issues of notes on the Bills directly, or indirectly through other Discounters, and the Federal Reserve Notes are issued to member Banks of the Federal Reserve System, although other notes are in circulation against the self-same bills; than which, however, we have done even worse.)

Thus the holders of goods, properties and services, which in course of trade they are obliged to sell, are tricked into finding the necessary value with which to meet and renew Federal Reserve Notes that represent other people's debts.

Thus, individual members of the public, as long as other people deem necessary, pay the debts contracted between bank-favoured buyers and bank-favoured sellers; for the Banks both can and do (and in principle reasonably so) discriminate as to the kinds of trade, and the persons carrying them on, to be encouraged or repressed.

This issuance of Legal Tender Notes for Bills, in the discounting or re-discounting of the Bills, reaches a limit regulated by a percentage of Bank Reserves to obligations —a limit which may be extended by reducing the percentage of reserves.

When the limit is reached no more Legal Tender Notes are issued.

This stops further trading and reduces the necessary supply of commodities for circulation.

Renewals of the Bills and Promissory Notes of the primary makers of same leave the trading of these people in abeyance, and the Bills revolving. Renewals cannot be refused, because if they were a great industrial crisis and financial panic would ensue. *The maximum issue of notes is thus maintained whilst trading decreases.*

Commodities being reduced both by consumption and by non-renewal, whilst the number of Legal Tender Notes is maintained by necessary renewals, the relative commodity value of the notes is reduced, and prices proportionately rise whilst supplies of some commodities are not obtainable at any price.

This position may become so acute and menacing that not only *must* renewals be continued, but more Bills *must* be discounted, and further note issues made in order that imperative supplies of commodities shall be set going.

Finally, the notes are so relatively numerous that they cannot be further increased except to produce Russian conditions. The Banks' reserves go down to Zero, nobody can pretend that the notes can be met by the Banks with anything but paper, and the public cannot any longer meet them with commodities. Industry than ceases and the stacks of Legal Tender Paper will buy nothing, either because there is nothing to buy or because prices are too high for buyers, while lower prices are too low for sellers. Progressive unemployment is the symptom of this development or creeping paralysis.

Under this Legal Tender System

(1) MEMBERS OF THE PUBLIC GENERALLY ARE MADE TO PAY FAVOURED PEOPLE'S DEBTS by the discounting and re-discounting of bills with Legal Tender Notes that the members of the public are forced, at every exchange, to find the value for, at the will of Bankers.

(2) Prices are forced up by the test of par of standard gold constantly and independently of law applied to the Notes.

(3) Prices are forced up or deranged by speculation for the rise in foreign exchanges promoted by continued legal tender depreciation, or for the fall, by schemes for procuring a temporary fall;

(4) Increasing issues of notes against decreasing existing values prevail.

(5) Government control adds to the chaos by unbalancing trade in obtaining, diverting and stopping supplies, as well as by causing deception and adulteration and the toleration of worthless substitutes at high prices.

(6) The Money Bubble bursts in Social Disorder.

The policy of Legal Tender Notes, not properly covered by standard gold, is thus a policy based on trickery, leading to improper appropriations from and ultimate ruination of the general public in the interests of special members of it. I can be more explicit, but that ought to be explicit enough.

In conclusion, to turn from Federal Reserve Notes back to Treasury Notes, I will not point out how these are operating; or where our Bank Reserves really are; or what, either deliberately or unconsciously, Finance is doing to bleed the country white in fruitlessly trying to restore values where they are lacking.

I will not point out how Treasury, National Banks and the Bank of England are shifting their obligations; or how, if our Banks do *not* shut down credit, prices fly up, while if they *do* shut down credit, work tends to a standstill; or how again credit cannot remain as it is.

For this dilemma the remedy—sound money and a particular kind of credit-right—is a *necessity*, not a matter of choice for political parties or individuals. In the Coal trouble the proper course is to continue the subsidy until the remedy can be applied. A mere fight against Communism or Nationalization, or the submission to the electorate of a question which requires no answer, is not a remedy.

The silence of men who know all this is amazing. It is now guilty silence. May those who are less informed and yet have a claim to statesmanship be wise enough in time—there is hardly time—to save themselves from being set down in history, however undeservedly, as traitors to their country!

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